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FIFTY YEARS
OF A CIVILIZING
FORCE

HARRY CHASE BEARLEY



100

FIFTY YEARS OF A CIVILIZING FORCE

Univ. of California



Courtesy of J. Edgar Leecraft

THE SETTING OF THE STORY

Historic "Underwriters" Hall" (156 Broadway as it appeared in July, 1866, when the story began within its walls. In this building, the National Board maintained its offices for thirty-one years (1871-1902), and passed through some critical periods of its history.

FIFTY YEARS OF A UTILIZING FORCE

**AN ACCOUNT AND A CRITICAL STUDY OF
THE WORK OF THE NATIONAL BOARD
OF FIRE UNDERWRITERS**

**BY
ALFRED CHASE BREARLEY**

**WITH AN INTRODUCTION BY
WILLIAM E. MALLABROOK
PRESIDENT OF THE NATIONAL BOARD OF FIRE UNDERWRITERS**

**SPECIAL APPENDICES COMPILED BY
DANIEL N. HANDY
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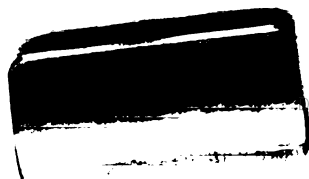
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FIFTY YEARS OF A CIVILIZING FORCE

Univ. of
California



Courtesy of J. Edgar Leacycraft

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FIFTY YEARS OF THE LIFE INSURANCE REGULATING FORCE

**WITH AN INTRODUCTION AND A CRITICAL STUDY OF
THE WORK OF THE NATIONAL BOARD
OF LIFE UNDERWRITERS**

**BY
JACOB CHASE BREARLEY**

**WITH AN INTRODUCTION BY
JOSEPH R. L. MALLALIEU
PRESIDENT OF THE NATIONAL BOARD OF LIFE UNDERWRITERS**

**WITH ILLUSTRATIONS COMPILED BY
JAMES N. HENDY
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1056 Broadway

FIFTY YEARS OF A CIVILIZING FORCE

AN HISTORICAL AND A CRITICAL STUDY OF
THE WORK OF THE NATIONAL BOARD
OF FIRE UNDERWRITERS

BY
HARRY CHASE BREARLEY

WITH AN INTRODUCTION BY
WILBUR E. MALLALIEU
GENERAL MANAGER OF THE NATIONAL BOARD OF FIRE UNDERWRITERS

AND HISTORICAL APPENDICES COMPILED BY
DANIEL N. HANDY
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*WITH TWENTY EIGHT PORTRAITS AND FORTY ONE
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PREFACE

THE UNITED STATES might well have been named Terra del Fuego—"Land of Fire." It has an average of 1500 fires per day, or more than one a minute, a daily loss of \$600,000. A value equal to one-quarter the total for all the new buildings erected each year is thus destroyed, and in 1906 this proportion rose to one-half. Every fire subtracts a definite sum from the national wealth through irretrievable loss. This country is proud of its petroleum, gold, silver, and copper production, but its fire-tax—the direct cost of its fires and the incidental expenditures resulting therefrom—consumes as much wealth as these four industries together create. Fire is one of the great outstanding economic factors of American civilization, and, in consequence, fire insurance has become one of our most familiar institutions.

The American public has, in a general way, some acquaintance with these facts and has grown to look upon fire insurance as a natural precaution, but there has been slight appreciation of the magnitude of loss-statistics or of the vast proportions of American fire underwriting, with its thirty million policies and its sixty billion dollars of insurance in force. The story of the latter undoubtedly ranks in importance with that of American railroad or banking evo-

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PREFACE

lution, yet it is scarcely known outside of professional circles. It contains some features of peculiar significance, features which cast an altogether new light upon our national development and which the student of American economics cannot afford to overlook. It is essentially a story of the past half-century, and is best understood by examining the history of a great trade organization which has dominated the field of American fire insurance since the Civil War—the National Board of Fire Underwriters.

The history of the National Board reflects, in many respects, the civic development of the United States of the past fifty years. This is the logical result of the peculiarly national character of fire insurance, which is operative in every city, town, village, and country district. It concerns the individual, as an individual, in the most intimate phase of his life—that relating to his home and its contents; it also concerns his business interests, whether he be employer or employee. It concerns commerce, industry, and finance in their largest aspects. In all of these, it is a conservative influence, furnishing a basis for material progress.

From another view-point, fire insurance is a reflection of American psychology. Its extraordinary proportions are an outgrowth of the immense fire-waste, which, in turn, is largely traceable to characteristic American carelessness; thus it marks the hurried, optimistic spirit that erects temporary buildings

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of flimsy materials in confident expectation that growth will soon require their replacement. It is affected by the reckless waste of resources characteristic of a new civilization, and its high premium-rates, compared with those of Europe, are a measure of the expensiveness of such waste. Its conflagration-statistics are a significant and sinister comment upon the easy national tolerance which has permitted one individual to be a menace to the many, and which has not exacted efficient municipal government. In more recent years, fire insurance has acted as a psychological barometer of the changes in the American civic consciousness in all these respects and has even indicated the exact degree of the progress that is being made by different sections of the country. Thus, its premium-rates record the development of our communities from aggregations into organizations.

Again, the National Board history has exemplified American business evolution. It has shown various local organizations, arising in response to local needs, extending their sphere of operation through a natural process of growth, engaging in fierce competition with destructive results, and, finally, being nearly overwhelmed by the chaotic conditions resulting from the Civil War—an early story of disharmony and inefficiency with the public paying the bill. Following this, it showed the birth of a tendency toward organization, of an attempt to bring order out of chaos. Its early years presented an alternation of the centripetal force of common interest and the centrifugal

PREFACE

force of personal advantage operating to strengthen or weaken the central body. By nearly a generation it anticipated the appearance of monopolistic conditions later seen in many industries, and foreshadowed their disintegration through natural causes working from within. It is the story of a powerful body crumbling quickly from the position of artificial strength to one that nearly brought extinction, and then rebuilding itself upon a broader foundation of public interest.

This National Board history is particularly significant and valuable as showing how self-interest must tend toward public service when recognized in its larger values. It presents a striking example of altruism freed from sentiment and operating as a practical business factor.

Further, it illustrates the growth of the desire for efficiency and of the substitution of exact methods for the old-time "rule of thumb." It emphasizes the necessity for business combination when freed from monopolistic purpose. It has also showed the trend away from a struggle for exorbitant profits and toward a basis of reasonable equivalents. In all of these respects it proves the existence of beneficent forces working through the entire field of American business life.

The relations of fire insurance with the State form not the least interesting of the history's features, and this part of the story throws a flood of light upon both the weak and the strong points of our governmental

PREFACE

system. It shows the way in which a highly technical subject of great complexity and large interests may be harassed by ill-considered laws passed by legislators who are often hostile and generally uninformed. It offers irrefutable testimony as to those waves of emotional legislation which occasionally work havoc with prosperity, and emphasizes the necessity of uniformity in the law-making of the various states. On the other hand, it is no less a witness to the decline of legislative corruption, the growing recognition of corporate rights under proper regulation, some realization of the public cost of oppressive treatment, and the dawn of a desire for a better understanding between the public and corporations.

It is generally recognized that the United States is entering upon an intensive stage of its business history. The crude, expansive forces of its first few generations have so far spent themselves that national thought and genius is becoming concentrated upon organization, conservation, improvement of method, and, in particular, the readjustment of social relations. At a time when many minds are staggered at the magnitude of these new problems, there is an almost prophetic value in the study of a business which has anticipated by nearly a generation some of the most vital questions of the day.

The writer desires to make grateful acknowledgment of his indebtedness to officials of the National Board, to certain of the insurance commissioners and

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fire marshals, to city officials, to those in charge of the Underwriters' Laboratories, the National Fire Protection Association, and the Boston Insurance Library, to prominent underwriters in New York, Chicago, Philadelphia, Boston, and Hartford, and to others who have aided him with information. If he does not mention them more specifically, it is because their number makes it impracticable to do so.

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INTRODUCTION

A CONNECTION of fifteen years with an organization of the character of the National Board of Fire Underwriters has offered unusual opportunities to observe corporations and men who manage and direct their affairs. It has also encouraged a study of the history of the organization, and a desire to seek an intimate knowledge of the earlier days and a book acquaintance, at least, with men who gave their time and energy to place one of the now great institutions of the country on the plane of a profession. Every big corporation has one big man, and an association of big corporations has many big men. The acts and motives of one man or a small group of men are sometimes viewed with suspicion if their business is with the public, but in this instance a body of big men, forming an association, holds frequent committee meetings to advance the objects and purposes of a business organization, and, in thus helping themselves, these men also help their competitors and serve the public quietly and efficiently. They do this in order to promote the principles of sound underwriting and to lessen the loss of life and property by fire. Such is the National Board of Fire Underwriters.

The author of this volume was accorded free access to all files and records, and it is believed that many

INTRODUCTION

facts unknown to the present generation are herein made public for the first time. There is no other association of its kind or character. There has been no disposition to overlook the mistakes of earlier days when underwriters were learning by hard experience some of the business principles which to-day are universally recognized.

The general public will doubtless be astonished to learn that the fire insurance business, through the National Board of Fire Underwriters and its associated organizations, is rendering such important lines of public service at private expense. The present status of the Board as a service organization can be best understood in the light of an historical record, where the reasons for the abandonment of legislative functions are clearly set forth. It is as truly a national organization as its name would indicate, and numbers on its executive and other committees, underwriters from the Pacific Coast, the Middle West, the South and the East, all working together with a harmony unknown a few decades ago. Its membership gives unselfishly of time and talent to advance the best interests of the association, and thereby better to serve the insuring public, the municipality and the state. It is the sentiment of underwriters generally that the relation of the companies to municipal or state government and the public should be predicated upon mutual understanding and a spirit of perfect fairness, and it is a pleasure to note the author's recognition of the fact that the interests of the underwriters

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INTRODUCTION

and of the public are absolutely harmonious when so understood.

In approving and endorsing the statements made in the following pages, the volume is recommended to the reading public in the hope that it will lead to a better understanding of the purposes and objects of a business association which has existed for half a century and which to-day is recognized as an active force for the development and advancement of the Nation's welfare.

WILBUR E. MALLALIEU,
General Manager,
National Board of Fire Underwriters.

FIFTY YEARS OF A CIVILIZING FORCE

FIFTY YEARS OF A CIVILIZING FORCE

I

THE BEGINNING OF THE STORY

(1866 and before)

THE beginning was of a very casual nature. When J. Milton Smith rose in a meeting of the New York Board of Fire Insurance Companies and made a motion upon a perennial subject, he probably was unaware that he was making history. The motion itself, the starting-point of one of the really big, really significant stories of American civilization, is tucked away near the end of the minutes of the meeting, where the secretary, in that pre-typewriter day, had recorded in ink, now faded:

On motion of Mr. J. M. Smith, a special committee of three, representing companies doing an agency business, was appointed, to confer with companies of other cities with reference to instructions to agents on the subject of uniform rates and commissions.

The president appointed Messrs. Heald, Hope and Crowell.

This was on April 30, 1866. From the earliest days conversation among fire-insurance men had

turned to rates and commissions as inevitably as the talk of farmers turns to crops. Conditions had long been unsatisfactory. Occasionally, one or another, with the feeling that "something really should be done," would make a motion or offer a resolution at some gathering of the profession; there would be a momentary ripple, and then conditions would return to their familiar lines.

But, on this day, something actually happened. This was due probably to two facts: In the first place, it *was* April 30, 1866, and, in the second, the president, after waiting to give the matter careful thought (as is indicated by the fact that the names were added in pencil after the minutes were written) appointed a trio of remarkable men—Daniel A. Heald, of the Home Insurance Company; George T. Hope, of the Continental, and E. W. Crowell, of the Phenix.

The close of the Civil War found the business of the country in a generally demoralized condition. In the fire-insurance field there was little short of absolute chaos. There had been an alarming increase in American fire-losses, which had leapt from \$29,000,000, in 1864 to \$43,000,000, in 1865, and promised a still greater increase for 1866. There was an unmistakable menace in the growth of the "moral hazard," that intangible but potent factor of human character, for the destructive spirit engendered by four years of war was showing itself in a wave of incendiarism. Companies were weakened

In motion of Mr. J. M. Smith, a Special Committee
of three, representing Companies doing an Agency business,
was appointed, to confer with Companies of other cities with
reference to instructions to Agents on the subject of uni-
form rates and commissions.

The President appointed, as such Committee,
Messrs. J. M. Smith, J. W. Hall and J. W. Hall.

Mr. Oakley moved that all disputes and dis-
crepancies as to rates be referred to the Com. on Surveys
at Meeting.

Which motion was carried,
And the Board, Adjourned.

Frank W. Hall
Secy.

THE BEGINNING OF THE STORY

Reproduction of a page from the Minute Book of the New York Board of Fire Insurance Companies (April 30, 1866) showing the original motion which resulted in the formation of the National Board of Fire Underwriters.

THE BEGINNING OF THE STORY

through rate-cutting competition, and harassed by hostile legislation. Nerves were on edge; every one was apprehensive, and the zest of combat disappeared in a sudden realization that the entire fire-insurance business was in peril. The time, therefore, was propitious for action. Moreover, there had been a certain precedent established by the convention of the preceding year, when representatives of a number of companies had met in comparative harmony and had appointed a committee to try to bring about Federal legislation to establish the national status of fire insurance. True, this effort had been unsuccessful and, for the time being, was dropped, but, at least, the possibility of joint action had been suggested.

It was doubtless with this thought in mind that the president of the New York Board made his committee selections.

Daniel A. Heald, general agent of the Home Insurance Company, was one of the acknowledged leaders of the profession. Keen, bearded, with a shaven upper lip, and a domelike brow, he was a familiar figure in the insurance cartoons of the period. Mr. Heald possessed a legal mind and had formerly practised law in Vermont. He was recognized as a formidable opponent in debate. George T. Hope, the president of the Continental Insurance Company has been described as "dignity itself"; he was tall, very erect, with a heavy mustache and beard, was an able speaker and a forceful personality. Of E. W. Crowell, the vice-president of the Phenix Insurance

FIFTY YEARS OF A CIVILIZING FORCE

Company, a contemporary has said: "If ever a man had a religion, Crowell had his in fire insurance. I never saw a man so wrapped up in any subject." He was the chairman of the committee.

After some deliberation the committee issued a "preliminary circular," announcing that the "auspicious moment" for concerted action had arrived. "The experience of the past two years," it read, "has demonstrated that there has been no profit in the aggregate business of fire underwriting throughout our country. The year 1865 was so prolific of losses, that while careless, indifferent or reckless underwriting carried with it disaster and ruin, the most cautious and conservative underwriters were barely able to stem the current and keep the capital of the companies they represented intact and unimpaired." After suggesting that the various companies of the country should get together in order that "from the nettle danger we may pluck the flower safely," the circular asked reply to two questions:

1. Are you in favor of cooperating with other fire insurance Companies doing an agency business, in the adoption of such measures as will be of common benefit, and general interest to the underwriting interests of the country?
2. Will you send a representative from your company at such a time and place as may hereafter be designated, to meet with a delegation of the New York Board of Fire Underwriters in convention, for a business confer-

THE BEGINNING OF THE STORY

ence, and the arrangement of plans tending to carry out the purposes hereinbefore referred to?

Would they? Indeed they would! Hatchets were promptly buried; knives were sheathed, and affirmative responses fairly poured in upon the committee. Incidentally, the \$10,000,000 Portland conflagration occurred dramatically at that very moment and stimulated the eagerness. Many felt it to be almost a matter of life or death that they should "do something" without delay.

Upon July 7th, the committee accordingly issued a "call" for a convention to be held eleven days later at the rooms of the New York Board. This convention was so clearly epochal in fire-insurance affairs that in order to understand its importance it will be well to glance briefly at the early history of underwriting.

Although there were various ancient and medieval prototypes, the origin of fire insurance as a business may be traced to the Great Fire of London; it thus began in 1667 and was a response to the needs of the London sufferers. Nicholas Barbon was the original underwriter, although the term itself came later. Barbon confined his operations to insuring buildings; goods insurance was not offered until 1706, when it was introduced by Charles Povey. In the mean time the first joint-stock insurance organization, the Friendly Society, was founded in 1684.

These original efforts were naturally crude and

FIFTY YEARS OF A CIVILIZING FORCE

experimental, but the underlying idea was sound, as is proven by the fact that the Friendly Society existed for nearly a hundred years, while a quaintly titled organization, the Contributors for Insuring Houses, Chambers, or Rooms from Loss by Fire by Amicable Contribution continued into the present generation under the name of the Hand in Hand. In 1710, two corporations were chartered, and the modern stock insurance company may be said to have appeared. The limited scope of fire insurance in its early days is in striking contrast to the vast extent of its present operations.

The strange term, "underwriting," originated in London in famous old Lloyd's Coffee House, early in the eighteenth century. This place was the recognized rendezvous for shipowners and trading merchants, who made it a custom to record the values of cargoes at sea upon the coffee house blackboard. Capitalists of the time speculated upon the safety of these cargoes and, for a consideration, guaranteed the owners protection from the perils of the deep. Such men *wrote their names* upon the board *under* the records of the cargoes which they insured, and "underwriting" thus became synonymous with insuring.

Fire underwriting soon reached America. The colonists built wooden buildings and had all the optimistic carelessness of a new civilization. We have it still. Fire, then as now, was a sacred American institution, and insurance was its natural consequence.

THE BEGINNING OF THE STORY

From 1728, the earliest record, the growth of American underwriting has been amazing; to-day there are few forms of activity that can be compared with it in size. But even more amazing has been the growth of our magnificent destructiveness.

Benjamin Franklin, that great American innovator, was a director in the first American company which was a mutual one. It issued its first policy in 1752. The first incorporated stock company for fire insurance was organized in 1794; the first reference to the agency system is to be found under date of 1798.

It might be supposed that the beneficent institution of indemnification for fire sufferers would have been marked by a beautiful spirit of harmony and mutual helpfulness throughout its history. Unfortunately, the records show otherwise. The relations of the Montagues and Capulets were kindly as compared with the enthusiastic warfare that soon arose among the various companies as competition spread. Until 1810, few companies were in existence, and conditions seem to have been fairly stable; but many new organizations appeared during the next twenty years, and the supply began to exceed the demand. Eras of rate-cutting were succeeded by spasmodic attempts to get together; but bands would soon snap and the strife would be resumed. This was not scientific underwriting, and the wreckage was large. Take the history in a single city by way of illustration: In 1821, New York city had a rate-agreement, but seven-
teen new companies were formed between 1823 and

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1825, and the schedule was abandoned under pressure of the resulting competition. The results were so disastrous that an association was formed in January, 1826, to make another effort to maintain rates. In 1835, the New York conflagration ruined eighteen companies, and the survivors promptly raised premium-rates to a profitable figure, whereupon there was another influx of new companies and another fight for business. The association was given up in 1843, and again rate-cutting was unrestrained. Then came the conflagration of 1845, known as the "Broad Street fire," when history repeated itself; once more many companies were forced to discontinue, once more rates were raised by the survivors, and once more a number of new companies were organized to profit by the advanced rates. Under the stimulus of the law of 1849, New York city produced no less than seventy new companies by the year 1865. Other cities, meanwhile, were dealing with similar problems.

These statements must not be considered a history of early American fire insurance, but, in a general way, they show the conditions prevailing up to the time when the disasters of the sixties proved the necessity for drastic action.

July 18, 1866, marks the dividing line in American fire insurance. Chairman Crowell called the convention to order and saw before him the representatives of seventy-five companies. Mark Howard, president of the Merchants Insurance Company,

THE BEGINNING OF THE STORY

slight and spectacled, with gray side-whiskers and a humorous mouth, was elected permanent chairman and took the gavel; he was known as one of the conservative influences in underwriting. At once it became evident that organization and not discussion was the purpose of the gathering. Mr. Heald had a plan, which he explained. It was referred to a Committee of Sixteen for consideration, and reported back to the convention upon the following day, when, as the record says, "a very frank and general expression of opinion" revealed the assembly as of harmonious mind, for the preamble and constitution were adopted with little change, by a rising vote, amid much enthusiasm. Thus was born the National Board of Fire Underwriters of the United States, to give it its full title. There can be little doubt that to Daniel A. Heald, the proponent of the plan and the author of the constitution, is really due the largest measure of individual credit. He was virtually the "father of the National Board," although many others played important parts in making it effective.

There has been some discussion as to the exact reasons for the board's organization, but an examination of the minutes of this meeting, and a reading of the preamble leave no question on the point; it was believed to be a matter of business self-preservation. In the words of Mark Howard: "Without an organization of this kind insurance companies would be in the position of Kilkenny cats. They would devour each other and leave nothing but the tips of their

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tails." Fire-losses had increased about fifty per cent. from 1864 to 1865, and already, in the first half of 1866, had exceeded the entire losses of 1865. This ratio was appalling. The torch seemed to be abroad in the land. A business confronted with such a peril could not continue the rate-competition then existent and live; there must be combination against the common enemy, Fire. It was not unlike the conditions in ancient Greece, where Athens, Sparta, and the other states enjoyed a succession of sociable little wars until the approach of some foreign foe brought them together as brother Greeks. It is interesting to note that this idea of considering Fire as an enemy, seems to have been a somewhat novel one in the profession at this period. That insatiable demon, by making insurance a commodity, had been rather kindly regarded by the "old-style underwriter," but at this moment he was manifestly carrying things too far; the \$65,000,000 of American insurance capital was in imminent danger of disappearing within the red maw; henceforth it must be war against him.

We shall have later occasion to trace the steps of a great evolutionary process, through which a purely self-interest organization of practical business men found itself almost unconsciously transformed into a public-service institution. This is one of the most interesting stories of American civil history. Its starting-point is in midsummer of 1866, when seventy-five companies announced a common purpose in the following terms:

THE BEGINNING OF THE STORY

1. To establish and maintain, as far as practicable, a system of uniform rates of premium.

2. To establish and maintain a uniform rate of compensation to agents and brokers.

3. To repress incendiarism and arson by combining in suitable measures for the apprehension, conviction, and punishment of criminals engaged in this nefarious business.

4. To devise and give effect to measures for the protection of our common interests and the promotion of our general prosperity.

To-day, this statement of purposes has been most significantly altered. And thereby hangs the entire tale.

II

BRINGING ORDER OUT OF CHAOS

(1866-1871)

THE new organization, the National Board, proceeded to get ready for business by electing officers and an executive committee of twenty-one members. The first officers were: President, James M. McLean, of the Citizens' Insurance Company, president of the New York Board of Fire Underwriters; Vice President, Timothy C. Allyn, of the Hartford Insurance Company; Secretary, Frank W. Ballard, secretary of the New York Board of Fire Underwriters; Treasurer, J. S. Parish, of the Atlantic, of Providence. Their election was unanimous; Mr. Howard, chairman of the convention, handed the gavel to Mr. McLean, and the latter, amid applause, called the first meeting of the National Board of Fire Underwriters to order. Then followed the usual series of resolutions, but it was recognized that the really constructive work was to devolve upon the Executive Committee, and the convention, its work accomplished, soon adjourned.

The cities of Hartford and New York were rival claimants for leadership as insurance centers. The convention having met in New York, it seemed no

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more than fair that the Executive Committee should hold its first meeting in the Connecticut city. Accordingly, fourteen members there gathered on August 9th, and figuratively, and perhaps literally considering the midsummer season, proceeded to take off their coats. A tremendous task confronted them, and, first of all, Mr. Heald was made chairman.

There is no branch of modern business, with the single exception of railroading (and this exception is disputed), that presents so complex a study as does fire insurance. An idea of the immense degree of chaos out of which the committee now purposed to bring order is simply beyond the imagination of the ordinary lay mind. The first important task being that of organizing sub-committees, those on Finance, on Local Boards, Rates and Commissions, on Co-operation of Companies, on Incendiarism and Arson, and on Legislation and Taxation were formed, and practical work began simultaneously in these several directions.

It is not necessary to detail the successive steps by which the central body began to make its organizing influence felt in the broad field of American fire insurance. The point of application, the point where the business touches the public is, of course, in the office of the local agent, and thousands of these agents were even then to be found throughout the length and breadth of the land; they operated in every town, village, and country district, and came into direct relations with every property holder. Intent upon

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increasing the total volume of their commissions, they were not especially zealous in protecting the companies from poor risks; it was a case of *caveat emptor* so far as the latter were concerned. Companies, in turn, hesitated to alienate their agents by refusing risks which rivals might accept. The same rule applied to rates; competition over some large line would occasionally become so fierce that the insurer could practically dictate his own terms, to which it was certain that some company would accede. A characteristic example is thus given in the words of an underwriter of the period:

Within sight of my office is a large manufacturing establishment of the extra-hazardous class with which I am perfectly familiar, and have been since its erection. The proprietor applied to me for a policy upon it; I offered to write one at $2\frac{1}{2}$ per cent., which was refused. He applied to another agent who charged him 3 per cent., which was, of course, refused. He then wrote an agency in one of these neighboring towns, and by return mail received a policy at $1\frac{1}{2}$ per cent., which he has just shown to me, saying: "I got it at my own price." . . . This is not an isolated case.

State supervision was then in embryo, and "wild-cat" insurance flourished. Scores of irresponsible companies, which, as some one has said, fulfilled all of the functions of insurance companies except the payment of losses, offered "protection" at impossible

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figures. When one of these concerns would fail, two would rise up to take its place. Thus, every element of demoralization was present in the field, where the agents and the insuring public responded naturally to the demoralization of those "higher up." "Some people," says David Harum, "have as much human nature as others—if not more." These methods are an illuminating case of unrestrained human nature from top to bottom. Yet they throw considerable light upon the manner in which our happy-go-lucky, individualistic American civilization tends, through reaction, to correct its own abuses and to produce, in time, a degree of efficiency. The abuses had been universal and glaring; the corrective reaction was now on the way.

At the very beginning of the Hartford meeting, there occurred one little incident which showed the potentiality of the army of agents in the background. Mr. Crowell offered a resolution that, "in the opinion of the committee, it is deemed expedient to *postpone* the application of the resolution respecting agents' commissions." The record merely says that this was adopted, but it is not difficult to read between the lines. "The original convention, with the zeal of Crusaders, had proposed the immediate reformation of all bad practises, including the payment of what was believed to be excessive commissions to the agents. It had been specifically voted that a ten-percent. commission should be the maximum on all risks save dwellings and outbuildings, for which latter fif-

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teen per cent. should be the maximum. Obviously, the agents had been heard from in the intervening three weeks.

However, this is merely incidental; really constructive work began with vigor. Board membership must be increased; classifications and rates must be revised; arson must be combated, and means must be devised for ending the warfare that had made every community an armed camp of local agents.

Four busy months ensued, and when the Executive Committee met in New York in December, it had a record of accomplishment. "To give an idea of the labor performed," says the chairman in his report, "I would say that our files now exhibit eight hundred and sixty-four letters received. Our copy-book of communications sent now numbers seven hundred and forty-two pages, and our letter-files show two hundred and thirty-six conferences with New York companies, with reference to this business."

Two months later, February 20, 1867, the National Board had its first annual meeting, and the Executive Committee, with evident pride, made its report. One hundred and thirty-five underwriters were present; ninety-nine companies and thirty-two local boards were represented, largely by their presidents. It was a body which might truly claim to be representative of American fire insurance; and it now listened to the important announcement that, in the remarkably brief time since the first meeting of the committee "*over two hundred* local boards, with rates

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more or less advanced, and uniform in character, have been organized under the auspices of the Executive Committee of this board, and the favorable results are apparent to all." In other words, the local agents, like the companies above them, were being induced to lay aside their local strife and to cooperate for the common good. Throughout the insurance domain, order was indeed emerging from chaos.

There could be no doubt that such a work should be put upon a business basis, and it was promptly decided to engage quarters, hire a secretary, increase the size of the Executive Committee, and push the campaign of reform. It was then that the famous "Hamburg Form" made its appearance, and for many years it remained one of the most fruitful subjects of discussion in all the meetings. This form of policy, sometimes known as the "three-fourths form," provided that, in case of fire, the insuring company should be compelled to pay not more than three-fourths of the actual loss incurred. Since a large percentage of fire-losses was believed to be the work of incendiaries, it was felt desirable to take measures to render the interesting profession of arson less profitable. There was also an "animated and extended discussion" over a new schedule of tariff and classification, and a consideration of other technical matters, thus indicating that the new board had already attained self-consciousness as a legislative body.

Meanwhile, the business public had awakened to the advent of this great new force, the most impor-

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tant combination that had thus far appeared in the American business world. This is reflected in a resolution introduced by Mr. Ducat, of Chicago, which began:

Whereas, The efforts of this Board have met with resistance among merchants, manufacturers, and others, on the stereotyped ground that it is a monopoly, and should therefore be discouraged, on the general plea that all such business combinations are antagonistic to the interests of the public;

Therefore, Resolved, That this Board disclaims any intention now, or at any future time, of demanding exorbitant rates, or of enforcing rules and regulations in any way injurious to the facilities of trade, or prejudicial to the interests of the insured. —

A contemporary article in the *Insurance Chronicle* supports this declaration. It says, in part:

The National Board of Fire Underwriters . . . is the offspring of that prolific mother of inventions, necessity. It does not owe its existence to the forethought of any one man, or set of men; neither is it, as some have supposed, the product of a desire to sustain the interests of Insurance Companies as against those of the public. It was not voluntary on the part of the Companies, but quite the reverse. . . . It was no greedy compact, formed in rapacity. . . . It was not contrived by its projectors, but forced upon them.

Competition had become unscrupulous and reckless;

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premiums were computed with the view of obtaining, rather than of compensating for, the risks; underrating was substituted for underwriting; expenditures unknown before to the business were made with a prodigality and ostentation which encouraged legislators to impose taxes, under the grievous burden of which the business now groans. . . .

To this inflammable train of circumstances, the bitter feuds and capricious values incident to the war applied the scorching heat of a fearfully enhanced moral hazard, and spontaneous combustion was, of course the result. *The whole edifice of fire underwriting in America was in flames. . . .*—

In this emergency, some measure of self-protection had to be resorted to. The business of Fire Insurance, depending for its security so entirely upon the law of averages, and that law being deducible only from the aggregate statistics of many Companies and many years of experience, a Mutual Association for the collection of such statistics and the correction of those evils which threatened universal bankruptcy and ruin seemed manifestly the best, if not the only possible remedy. A few of the border spirits in control of the Companies resolved to attempt it. Such was the origin of the National Board.

There are several outstanding features of the next two or three years which must be mentioned. In the ~~first~~ place, the board opened an office, a small room in the rear of the Home Insurance Company at Broadway and Cedar Street, New York. There it

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installed a salaried secretary, Charles B. Whiting, and a young assistant, William H. Post, who was a combination of clerk and messenger. The latter, now an old man, recalls a minor crisis which occurred soon after the establishment of the office. In spite of the encouraging start, it did not seem to be certain that the companies would support the new work with contributions. "One day," Mr. Post relates, "Mr. Heald came in and said: 'Boy, you'd better make out bills up to the first of March, and pay yourself. I don't think that we'll have any money after that.' " However, this crisis was passed in safety, and presently "we moved up-stairs to the third floor, branched out a little bit; had a bookcase, a long table, some chairs, and a water-cooler. We then moved to the third floor of 156 Broadway. There we stayed until things got pretty blue"—but this goes ahead of the story.

With such trifling exceptions, and they are to be found in the history of all businesses, the growth was vigorous for the first three years. In that time, there were organized four hundred and seventy-five local boards, all tributary to the central body.

Progress was made in formulating standards. Specifications were set down for "first class" woolen-mills, sugar-houses, and the like, somewhat as beautifully penned lines are given in copy-books for guidance and comparison. It was a period when "the burning fluid sold so extensively throughout the United States under the name of kerosene oil" was



THE OLD QUARTERS AT 156 BROADWAY

These rooms were occupied by the National Board for thirty years. The bearded man shown standing in the upper picture is William H. Post, the board's first clerk in 1866. The photographs were made in 1894.



MARK HOWARD

Merchants' Insurance Company, of
Hartford. Chairman of the original
convention, July, 1866.



JAMES M. McLEAN

Citizen's Insurance Company, of New
York. President, 1866 to 1870.



E. W. CROWELL

The Phenix Insurance Company, of
Brooklyn. One of the signers of the
call for the original convention.



GEORGE T. HOPE

Continental Insurance Company, of
New York. One of the signers of the
call for the original convention.

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still a comparative novelty, and a special committee reported on its dangers. There was also a notable report by a Committee on Gas-Machines, which seems a forerunner of the wonderful Underwriters' Laboratories of the present day. Such lines of investigation were still a trifle remote and academic, however. Underwriting and Science were merely passing acquaintances as yet.

Nearer to the spirit of the time was a famous piece of litigation, known, by strange coincidence, as the case of "Paul *vs.* Virginia," Colonel Samuel B. Paul *vs.* the State of Virginia. While it chiefly concerned one organization, the New York Underwriters Agency, it involved the vital principle of the relations of fire insurance to Federal control, and the National Board was represented by counsel. There was an earnest hope that insurance might be freed from the harassment of the infinite variations of State law, by establishing its national status, but the Supreme Court decided otherwise.

Over all other considerations, however, there loomed the huge subjects of classifications and rates.

Since degrees of hazard varied so bewilderingly with local conditions, the construction of buildings, and the nature of occupancy, it was necessary to have some better basis of charge than the rates fixed by competition. This question dominated all others and was attacked with energy. A survivor states that, at the meetings of this period, the words most frequently heard were, "adequate and inadequate rates." The

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National Board became essentially an organization for rate-control.

By the time of the third annual meeting, 1869, tariffs had been prepared for eighteen hundred and twenty-four places and the work had outgrown its facilities. Accordingly, a Rating Bureau was organized and the territory of the United States was divided into six departments, with a department committee, an office, and one or more paid representatives in each.

But "human nature" still persisted in the "field." Some agents were slow to abandon rate-cutting. For their discipline, there was made the historic "Chicago Compact," wherein thirty-seven leading companies pledged themselves to remove any local agent upon second conviction for violating National Board rates.

The National Board's Policy Form came into wide-spread use.

For the first three years, the progress was steadily upward. Rates were raised and standardized. The business became assured and profitable, and it was freely admitted that "many companies had been saved from bankruptcy" through the formation of the board. Chaos had disappeared; "human nature" had been routed; traditional foes had learned the advantages of harmony. It was believed that the millennium had fully arrived. Then—the pendulum began to swing the other way.

To change the metaphor, a small cloud of anxiety floated over the sun of complacency. At an Execu-

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tive Committee meeting early in 1869, the secretary reported that some of the companies that had signed the solemn Chicago Compact seemed to be evading its provisions. The cloud grew and blackened rapidly. By December of that year, E. W. Crowell, the committee chairman, used almost despairing terms. "*We have used our utmost efforts,*" he said—and the words are italicized in his report—"to stem the tide of demoralization. . . . Candor compels us to say that we are not as efficient as a board to-day as we were at our last meeting. . . . The outside public being made aware that our hold on local boards is not as strong as formerly, have redoubled their efforts for cheaper insurance, and many companies are giving discretionary power to their agents to meet this demand. If this demoralization goes much farther . . . it is only a question of time when, in all of the principal places at least, the matter of rates will be a thing of the past."

The millennium after all had not arrived; chaos again loomed large, but board purposes were not to be abandoned without a struggle. Two months later, a Special Committee on Reorganization admitted that "bad faith among those who have been understood to consent to the legislation of the board" was proving a serious obstacle and, to meet it, proposed the signing of an even more solemn agreement, "The Articles of Association and Obligation."

Some companies signed the articles; many would not; "human nature" resumed its rule, and the Execu-

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tive Committee made official acknowledgment of that fact when, on February 24, 1870, it authorized the local boards to "modify, suspend, or declare advisory any or all rates fixed by them."

This ended the first period of the National Board.

III

THE STIMULUS OF ADVERSITY

(1871-1872)

“**T**HERE we stayed until things got pretty blue,” says the former clerk of the National Board. The bluest period lasted through 1870 and most of 1871. General discouragement ensued, for, in the words of one member, “the National Board was ruined by a mental reservation.” What was the value of any rate-agreement if each underwriter had his fingers crossed? The great insuring public had one incessant cry, “Give us lower rates!” The army of local agents, through that anomalous relationship wherein fire insurance differs from all other lines of business, was less in sympathy with its companies than with the public: it exerted a tremendous pressure and, at the first sign of weakening among the underwriters, local-board restrictions ceased to exist at many points. Thus disappeared the toilsome structure of the later '60's; the forces of destruction are swifter than those of construction.

The National Board, in consequence, passed practically into a state of suspended animation. The secretary was dismissed for lack of funds, but the clerk, being married, was retained at a low salary.

There, "for one year and eleven months," he says, "I was alone in the little office at 156 Broadway; all I had to do was to draw my salary, pay the janitor every month, and the rent every three months." During this period, one of the members wrote to Mr. Crowell suggesting that the small treasury-balance be spent in a junketing trip and the office discontinued. "The man to whom fire insurance was a religion" was horrified; the suggestion was equivalent to sacrilege and it was not renewed. By this slight margin did the National Board retain its hold upon the spark of life.

It was reawakened through the operation of an X-factor; one of those strange, unexpected phenomena which occasionally intrude upon the path of the ordinary course of events and overthrow all human calculation. In this case it took the form of an appalling catastrophe—the Chicago fire.

Whether due to the restless hoof of a semifabulous cow, or to the carelessness of a party of card-players in a barn, the night of October 7, 1871, witnessed the beginning of the most destructive fire that the country had ever known. Driven by a high wind, the conflagration swept all before it for two days until, in the words of Frederick Law Olmstead, it was "possible from the top of an omnibus to see men standing on the ground three miles away, across what was once the densest, loftiest, and most substantial part of the city." Even traditional Chicago energy was momentarily stunned. Through an almost uncanny coincidence, the only fragment of literature saved from the

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large stock of the Chicago News Company was a charred Bible found open at the first chapter of the Lamentations of Jeremiah, beginning: "How doth the city sit solitary, that was full of people! How is she become a widow! . . . She weepeth sore in the night, and her tears are on her cheeks."

Then Chicago dried her tears and thought of reconstruction; she turned to her insurance policies.

There is fire-proof construction in companies as well as in buildings; also, at this period in particular, there were many companies that were not fire-proof. The public had been clamoring for cheap insurance; it now found that rate-cutting is a poor preparation for protection in time of conflagration. Weak companies literally went to the wall by the score, and many of the stronger organizations were put to the severest straits to meet their losses. Excitement in the Insurance world was naturally intense. Underwriters rushed into the stricken city while the ruins were still smoking, and the first comfort of the sufferers came from the assurance that many companies would be able to settle their losses in full. This ability was due unquestionably, in large degree to the brief period of sound practises which followed the organization of the National Board. The mortality among companies would have been far greater had it not been for this fact, and the reconstruction of Chicago would have been correspondingly retarded.

The dormant board awakened in a flash, and leaped into a period of the greatest activity. Its next meet-

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ing was, in the words of a survivor, "a love-feast." Again it was a question of "combine or perish"; even the blindest could read, by the light of Chicago's flames, the suicidal folly of continuing to fight for business at cutthroat rates. Throughout the country there was a mighty revival of local boards, and rates sprang back to the high level of 1868. This time, there was little resistance on the part of the public; the demand was for protection that would protect.

The reform lasted for several months.

On September 18, 1872, the president of the National Board delivered an address in Chicago in the course of which he said :

Meanwhile, we in New York especially were watching with great interest to see whether the tide had really turned, and the spell of virtue was to be a lasting one, or whether, when the first effects of the great calamity had passed, the companies would return to old practises and practically forget the severe lesson taught by Chicago. We had not long to wait, for *sixty days had not elapsed before complaints began to reach us on all sides of bad faith*, and we saw that the time had not yet arrived for the National Board to reassert itself. But when, soon after the opening of 1872, the almost total exemption of losses which had characterized the last months of 1871 began to be supplemented by extensive fires in every part of our land . . . the feeling began to assert itself that something must be done or the companies would be involved in hopeless ruin. Out of this necessity grew the

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reorganization of the National Board, and this time, on the part of those who undertook it, with a determination that there should be no failure.

The process of reorganization was accompanied by some plain talk. One of the members did not hesitate to say:

What we want is good faith in the first place; it is not of the least use to send forth letters to our agents directing them to form a board, and to adhere to the regulations of that board, unless we adhere to them ourselves. That is the rock upon which we have split. We have solemnly resolved at our meetings, and we have gone out and given contrary instructions to our agents. . . . That is the cause of so many tariffs and rates being disregarded by agents. *They have received secret instructions from their companies to disregard tariff-rates.*

The reorganization took the form of a new constitution and by-laws, a reduction in the membership of the Executive Committee for increased efficiency, and the appointment of Thomas H. Montgomery as general agent for the National Board at the unprecedented salary of ten thousand dollars a year.

Mr. Montgomery, who thus became a prominent figure in the Insurance world, was tall, bearded, spectacled, a little stoop-shouldered and rather precise, but essentially able. The Insurance cartoonists of the period were fond of picturing him as a school-teacher attempting to preserve order among his un-

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ruly company pupils. He threw himself into his task with energy, and undertook to straighten out the tangle of the local boards, meeting with some success, but it was not until November, 1872, that really favorable conditions were met with. This time, again, it required the shock of great disaster to induce a teachable mood. Thirteen months after the Chicago conflagration, the underwriters were thrown into a panic at the news that the city of Boston was in flames.

It was now the turn of the East. Many of the New York and New England companies had carried comparatively little insurance in Chicago, and after its fire there were signs in front of some offices, "THIS COMPANY HAD NO RISKS IN CHICAGO," but Boston swept away organizations that had weathered the preceding disaster. Here again was illustrated what is so often to be noted in the early history of underwriting—the fact that the survival of some company may have been due to the foresight or instinct of an individual, or even to absolute good fortune. To-day, the dearly bought wisdom of former days causes a general restriction of risks in crowded centers, but in the '60's and '70's the activities of some local agent might spell ruin in case of a conflagration.

One underwriter recalls that the comparative immunity of his company in both these great fires had been due to a general agent who was prejudiced against the two cities. Chicago he disliked for its wooden buildings and its winds, and he absolutely

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refused to take a risk. His death occurred but six months before the disaster, and his successor felt no such prejudice; thus, all the Chicago losses of this company had been placed upon its books within six months.

Boston was objected to for another reason. The underwriter remembers going to that city with the elder general agent, and being asked his opinion of an apparently solid row of granite buildings. The younger man, impressed by their massive appearance, replied that they looked like excellent risks, and was taken, by way of an object lesson, up to the roof. Here he was shown a wooden mansard, topping, with an undivided space, the entire row and making an excellent channel for the spread of fire from one building to another. The general agent refused such risks, and thus protected his company from heavy loss. Later his judgment was verified when the mansards played a large part in the spread of Boston's conflagration.

Those were the days "when every cellar held an insurance company." Organizations had been formed on every hand to reap the harvest found in the demand for insurance following the Chicago fire. One survivor of the period says:

As soon as they began making money, they took to fighting. I saw four companies on a single corner; two on one floor and two in the basement. Some had as much as \$50,000 capital and some did not have any. In

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a certain town in the West, where I stopped for a few days, a father had a desk in one corner of a room and his son in another. The father, who was a Board member, would take business and would place it with his son who was Non-Board. In another place where I traveled there was on one floor a very strict member of the Board—no rebating, no “whacking” of commissions—but on the floor below was Non-Board Mr. Jones, who would share in Mr. Board Man’s business. There was little supervision in the Middle West and New York was not much better. The country was full of “wildcat” insurance.

There can be small wonder that company mortality was so great, or that, in a special emergency meeting of the National Board’s Executive Committee, immediately following the Boston fire, the president should have spoken of—“A crisis greater by far and of an infinitely graver character than we have heretofore been called upon to consider, for it has brought us face to face with a danger which we have long felt might exist, but which we have been unwilling to acknowledge to ourselves—the danger of the *entire absorption* of the capital of fire-insurance companies doing business in the United States by extensive, unlooked-for, and destructive conflagrations.”

At this same meeting one of the prominent company officials exclaimed: “We are all in distress! Gentlemen, this is a life struggle. *One more such conflagration will strip this country of every fire-in-*

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surance company. It will require only one more. You are nearer the edge of the precipice than you ever were before."

Once more the centrifugal force of selfish interest was overcome by the centripetal force of common peril, and the warring companies united in a general advance of rates; 30 per cent. increase in towns of less than fifty thousand population, and 50 per cent. for larger cities. There was, say the records, "great unanimity."

IV

THE DANGERS OF PROSPERITY

(1873-1878)

SOME one has said that the story of civilization is one of "progress through reaction." The history of the National Board is a case in point. The double lesson of the two conflagrations in Chicago and Boston now drew the companies together in strong solidarity, and the board enjoyed a period of effectiveness.

In a large measure, the history of the National Board since its organization has constituted the history of American fire insurance; the board's periods of decline have reflected eras of demoralization throughout the business, and when ascendant it has been the dominating influence in the entire field. Its action may be compared to two possible states of a giant electromagnet; sometimes inert and sometimes electrified into intense activity, when its lines of force would shoot out through every state and draw chaotic local conditions into order.

The years 1873 and 1874 were periods of such activity. In spite of all faults, the board had a well-developed form of organization, a capable general agent and possessed a high degree of prestige with

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some hundreds of local boards. It was thus in a position to respond quickly to the new stimulus. It was a colossal institution for those days, representing 90 per cent. of the fire insurance premiums and about 95 per cent. of the fire-insurance capital of the United States. Every factor had come again into harmony. The company officials were almost affectionately fraternal; the local agents were in a chastened frame of mind, and the insuring public seemed fully awake to the danger of overcheap insurance. Rates were high; business was good, and companies that had weathered the double storm of Chicago and Boston losses began to make money. In 1874 dividends upon fire-insurance capital reached 12.73 per cent.

One of the signs of the times was the organization of State Auxiliary Boards. The first of these, the Association of the Northwest, dates back to February, 1871, and by February, 1873, it had been supplemented by fourteen others, covering a total of thirty-one states. Each state was divided into districts, and each district was under the control of a Committee of Visitation. Local boards were required to adopt a form of constitution and by-laws prescribed by the National Board. Authority and efficiency reigned supreme, and it was with good reason that the sun of complacency emerged from behind the black cloud of anxiety. President Oakley said in his annual address (1873):

We feel that we have cause for congratulation in the

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harmony and concert of action which prevail generally throughout the country, not only among companies but among local and supervising agents; also that the jealousies and dissensions among employees as well as managers have given place to hearty cooperation and earnest support of mutual interests; that state- and local-board organizations have been made such effective auxiliaries to the central organization, and that agents and public, through the medium of schedule and minimum tariffs, have been educated to a better appreciation of the hazards which enter into risks as well as the rate due companies for granting them protection.

At this time there was sounded again, with a somewhat louder tone, the new note of fire prevention, that later was to become so prominent in insurance discussion. The business had stood on the verge of ruin because of dangerous construction in two great cities; these cities were now rebuilding, and must be watched to guard against future danger and thus, although still in a limited way, the National Board began to realize that it must deal with larger questions than those of rates, commissions, policy-forms, and legislation. To quote further from the president's address:

With the exception of New York, no large city had a law which even remotely provided for the erection of superior buildings, calculated in time of trial to resist fire, and even in New York the law was rendered almost nugatory by the manner in which it was administered. The

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(Boston) law since Boston's great fire has been somewhat changed, but is far from what it should be. . . . It is evident, therefore, that if Boston is to be rebuilt properly, it must be outside of its laws. . . . In Philadelphia, recent examinations have shown that glaring and outrageous evasions of even the moderately strict law of that city had been allowed by the building inspectors, whose duty it was to enforce it. Now if this be the case in our great cities, what must it be in our smaller ones?

Owners of property, builders, and architects alike, seem to have been wilfully blind to the immense risks they were imposing upon property by the modern style of building. . . . Even the insurance interests, though somewhat alive to the danger, were afraid to assert their knowledge, and decline to insure such buildings, preferring to go with the multitude; *the penalty has been paid for this neglect of duty*, at a fearful price to us all. . . . We can do much to shape legislation that would benefit not only our own interests but the whole country, by securing such wise and salutary laws as might prevent the recurrence of other destructive conflagrations.

In this last sentence there was a dawning consciousness that the board was destined to become a public-service institution as well as a business association.

Certain definite steps were therefore undertaken—crude and partial measures compared with those of to-day, but immensely prophetic of the future. A war upon wooden mansards was one of these. The revival of the mansard was contemporaneous with the

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fashion of the hoop-skirt, and was equally sensible, but it seemed the last word in impressiveness to the architect of the period. It had proved to be an excellent device for spreading fire, but, even with the lessons of Chicago and Boston fresh in mind, the enamored architects hated to abandon it. Mr. Alliger, one of the National Board members, had this to say in a meeting:

I should like also to direct the attention of this board to the erection of four or five new, large buildings, just finished in Chicago, having the worst mansard roofs ever erected. It is scarcely possible that worse could be built. This is the case with the Sherman House, Palmer's new building, the Gardner House, and one or two others. The Pacific Hotel, too, is constructed with this roof. I think some action should be taken, for we are not unlikely to have another fire there shortly.

There was war made also upon open elevator shafts. The elevator was still a new convenience, and protective measures had not yet been adopted. The open shaft was as effective in drawing flames from floor to floor as was the mansard in spreading them between buildings.

Legislation was a slow method of accomplishing these and other building reforms; devious and dark were the roads that led through many of the law-making bodies. Recommendations might be made, but it began to be realized that the underwriters had a

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more effective weapon in schedule-rating, by means of which good construction might secure cheaper insurance rates. It is good policy to make virtue profitable. In this, as in other matters, effectiveness depended upon joint action and good faith; there was little that the companies might not accomplish if they held together.

Then there was the important matter of getting after the fire departments. Effective fire-fighting is almost unbelievably recent. Even London had no paid City Fire Department until 1861, fire-fighting being in the hands of the various insurance companies, which had firemen to deal with blazes among their clients. In the United States semisocial, semipolitical volunteer corps for fire-fighting were the rule except in a few of the larger cities. The National Board has had much to do with bringing about the change in these conditions.

The case of Chicago furnishes an example. As this is somewhat important, a degree of detail may be permitted.

Reports having been received of bad conditions, the Executive Committee, in June, 1874, appointed a special committee, consisting of Henry A. Oakley and James M. Rankin to visit Chicago and investigate. The committee found alarming defects and so reported on July 24th. In the first place, the Fire and Police Departments were both under the control of one body of four commissioners of Police and Fire, who gave five-sixths of their time to police

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matters and one-sixth to the subject of fire. "There is no question," says the report, "but that the Fire Department is neglected by the board." Politics honeycombed the department as, for example:

At the Wells & Company fire, some of the firemen were accused of appropriating boots to their private use. One of the men who was thus charged is a prominent candidate for the position of foreman, and his appointment urged by one of the commissioners, in opposition to the chief marshal; and although the papers relating to this affair have been sent to the board, and Chief Marshal Benner has made two appeals for an investigation, they still remain tabled.

Good discipline is paramount in an effective department, but the report continues:

The discipline of the department is bad; no attempt at order being made. . . . When a stranger approaches an engine-house he finds the men sitting or lounging about the front doors, or on benches or chairs on the sidewalk, some sleeping and others smoking. . . . The men do not show any respect to a superior or any readiness to obey his orders. . . . No system of street-patrol exists; the men are not obliged to account for their time, and no company or other drill is ever practised.

"No pride" was found in keeping the engine-house in proper condition; "the first floors look like stables, most of them having wooden street pavements for

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floors. After bed-hours there is no one on the engine floors." As to buildings and exposures, the report says in part:

The immense territory covered with frame structures makes the city very inflammable. The grade of Chicago has been raised from time to time; consequently there are blocks of frame buildings built on timbers with no separation between them, and also brick structures where a continuous passage for fire exists around a whole block. These cavities under buildings and sidewalks are receptacles for straw, shavings, and other inflammable rubbish, which are liable to be fired by carelessness or evil-disposed persons at any time.

The system of fire-wardens, to whom is intrusted the inspection of buildings, does not work satisfactorily, politics interfering with their duties. . . . It would appear that buildings can be erected in any way or style that suits the convenience of the interested parties, irrespective of the law governing the same, no effort being made to enforce the law.

The lumber district of Chicago is a dangerous locality; immense piles of lumber extend as far as the eye can reach, and all are piled so as to admit the air, thus making good conductors for fire. There are to be found in this district steam planing and molding mills, steam box-factories, grain elevators, etc., in fact a forest of inflammable materials. *Locomotives run through the heart of this district continually*, a spark from one might start a fire at any time, especially when the wind is blowing from off the

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prairie. . . . A fire starting here, if not arrested at once, would soon be of such magnitude that human efforts would be powerless to stop it.

It is hard to realize that these conditions were found in a city which had received the most severe lesson of modern times *less than three years before*. The citizens might be indifferent, but the underwriters could not afford to be. The National Board resolved upon drastic action. A telegram was sent to the Chicago local board, as follows:

We demand the immediate establishment of a special fire-patrol of at least one hundred men, by the city. No committee will come, but National Board companies will forward their demands to be complied with within a fixed time, or companies will retire.

In other words, if Chicago did not immediately mend its ways, its citizens would find themselves without fire-insurance protection. The Chicago board wired back:

Committee of Chicago Board waited on mayor, and asked patrol of one hundred men. Mayor had not constitutional power to appoint, promised to send recommendation to council at next meeting, Monday night. Underwriters and citizens alive to importance of speedy judicious action for protection.

The National Board thereupon formulated six peremptory demands, and threatened to discontinue

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the Chicago business of its companies upon the first of the following October unless these demands were complied with. They were, in brief:

1. The establishment of permanent fire-limits.
2. The enactment of a stringent building-law, and the provision for its enforcement.
3. The complete reorganization of the Fire Department, the eradication of political influence, the establishment of discipline, and the improvement of equipment.
4. An increase in water-facilities.
5. The establishment of a Fire-Marshall's Bureau.
6. The passage of a law for the gradual removal of special hazards.

Naturally, the authorities of warned, endangered, recently stricken Chicago hastened to comply with these reasonable demands? They did no such thing; there were political difficulties in the way.

Then the National Board took the next step. On September 23d, one week before the expiration of the time-limit, the Executive Committee, at its morning session, unanimously adopted a resolution recommending to all Board companies that they withdraw from the Lake metropolis. This started something. The news was flashed to Chicago, and at the afternoon session a telegram was read from the Chicago Citizens' Association asking: "Can General Shaler be secured as chief of our Fire Department? Answer."

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An affirmative reply was sent, and General Shaler subsequently went. In spite of this fact, and of the agitation of the Chicago public, now genuinely alarmed, the Board companies wisely carried out their threat, and their example was followed by certain of the Non-Board companies, which likewise withdrew.

The Chicago Citizens' Committee now took the situation in hand, and, a few weeks later, it forwarded an earnest request that the National Board should send a committee to see what had been accomplished. The committee arrived on November 20th, was received with extreme consideration, not only by the Citizens' Association, but also by the Chicago city authorities, and saw such evidences of progress that, upon its recommendation, the National Board withdrew its ban. Thus was won a notable victory for public interest through the tremendous power of united action by the insurance companies. This was public service of a high order but—and herein lies its greatest value—its motives were those of practical business and not of altruism.

Less drastic means were found to improve conditions at many other points. The powerful weapon of schedule-rating, judiciously used, proved most effective, as shown, for example, in the following resolution:

Resolved, That in consideration of the introduction of a complete system of Water Works in the city of Roches-

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ter, New York, that the Local Board of that city be instructed to abate *the 20 per cent. advance, of December, '72*, on all risks covered by the new water works of the city—and no other—to take effect from the date at which the water works were accepted by the city authorities.

The fact that in 1866 only fifteen cities in the United States had steam fire-engines, while in 1876, ten years later, two hundred and seventy-five were so equipped, is some evidence of the board's influence. As the general agent said in a report in 1874:

The maintenance of good rates for the past fifteen months has been the means of fostering more improvements in the Water Supply and Fire Departments of different towns than the same space of time can show in any previous period of the history of underwriting in this country.

The records of this busy period are full of other details, such as the formation of a Bureau of Statistics, the failure of efforts to secure Federal legislation, the employment of three special agents to supervise local agents, the payment of rewards to secure convictions for arson, the rapid progress of the "three-fourths" clause, which, some believed, would bring about an "underwriters' millennium," the efforts to secure the adoption of a uniform policy-form, and, in particular, the appearance of that San José scale of the insurance profession, the Valued-Policy Law. This unlovely measure, then known as

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the "Wisconsin Law," after the experimentally-minded state that gave it birth, was later to produce wide havoc, and its discussion will be reserved for a later chapter. But no honest chronicle should omit to record its advent.

During this period, also, the National Board outgrew its surroundings and moved into larger quarters.

Then, once more, came the familiar reaction.

The virile, efficient, successful organization was actually *too* virile, *too* efficient, *too* successful; it failed to recognize the dangers of prosperity.

The last preceding demoralization had come from lack of coherence within the organization; the new one came from overconsciousness of power. The united companies had given the public sound protection and had brought about valuable public improvements, but they had reacted too far in the matter of rates—they had established excessive premiums. It is even possible that they did not fully realize this fact, but the public did and, in particular, the one hundred new companies that sprang up and began a lively competition for business at cut rates, recognized that the high prices of the Board companies furnished their opportunity.

For a time, the iron discipline of the National Board held out against this influence, but it speedily grew serious. Board *vs.* Non-Board conflicts arose at various points. This was notably the case in New England, and the New England Provisional Com-

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mittee made heroic efforts to hold it in check; its report of April 26, 1876, says:

During the past year we have held over one hundred meetings. . . . We have revised the tariff for thirteen places, made partial revisions in seventy; we have written over seventeen hundred letters, and have acted upon over four thousand applications for revisions in rates and new ratings.

Nevertheless, the conflict spread. In Boston there was a 31.5 per cent. loss in premium receipts, largely from this cause, and Board companies began to drop away from their solidarity. The committee report was signed by six of the strongest men in the profession: M. Bennett, Jr., L. J. Hendee, George L. Chase, Henry Kellogg, Dwight R. Smith, and J. S. Parish. These men saw with unhappiness that their hopes were being undermined by the destructive influence, and the report proceeds with this bitter comment:

The withdrawal of companies from our organization with the argument that they shall stay in the board when it suits them, and go out where they please, observing National Board rules and principles where it is for their interest; in other words taking advantage of board experience and labor without lending it any sympathy or support, pecuniarily or otherwise, *and who believe in the board simply because it ties other companies up to rates, and allows them to shade them just enough to steal the*

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business, is, at best, a narrow, selfish, and extremely unwise policy.

A crash came in the latter part of 1875 and the beginning of 1876. Twenty companies resigned; eighteen were dropped; two were expelled.

V

“REMOVING THE BONE OF CONTENTION”

(1876-1877)

IN spite of all reversals, the National Board, in the first decade of its existence, had made a substantial showing. In that time, the amount of fire insurance in force had increased from \$3,428,000,000 to \$6,273,000,000, and the annual premiums from \$29,529,000 to \$64,900,000. There had been a notable improvement in Fire Departments, in water-systems, in building laws, in the introduction of fire-patrols, and in the punishment of arson. The business had made progress in organization, in classification, and in the collection of statistics, but “foremost among these benefits,” said the president, in his annual address (April, 1876), “I place the elevation of the business from one almost of contempt to a front rank, both in importance and usefulness, among other professions.”

Nevertheless, when these words were spoken, the board had already taken some steps down the slope of the longest descent that it was destined ever to travel. The full extent of this was mercifully hidden, but there was a general feeling of uneasiness, which showed itself in the appointment of a Com-

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mittee of Fifteen to consider what should be done. The committee studied the situation and rendered a majority and minority report.

Both reports agreed that there must be no more fining of agents. After all, this was America, not Europe. During 1875, "Schoolmaster" Montgomery and his assistants, the supervising agents, had used the birch rather freely upon fractious pupils in the local boards. There had been twenty-nine trials; one hundred and twenty-one local agents had been convicted of violating rules and tariffs; fines had been imposed to the extent of more than six thousand dollars, and, what is remarkable, most of it had been collected; but—the agents were heard from, and the voices of protesting agents have carrying power.

These voices penetrated the doors of the private offices, and company officials began to squirm uneasily. Some of them accused the Executive Committee of "harassing members with edicts on trivial matters," or of subjecting them to "vexatious and frivolous annoyances"; some wrote stiffly formal, and others regretful letters of resignation; certain leading foreign companies withdrew. The upshot was a wide-spread defection, and surviving members looked into each other's faces blankly.

It is not strange that the annual meeting of April, 1876, developed a highly charged atmosphere. After the board had listened to the well-rounded periods of President Oakley's eulogistic review, and had elected his successor in the person of George L.



HENRY A. OAKLEY

Howard Insurance Company, of New York. President, 1870 to 1876.



GEORGE L. CHASE

Hartford Fire Insurance Company, of Hartford. President, 1876 to 1877.



ALFRED G. BAKER

Franklin Insurance Company, of Philadelphia. President, 1877 to 1880.



M. BENNETT, JR.

Connecticut Insurance Company, of Hartford. President, 1880 to 1881.



DANIEL A. HEALD

Home Insurance Company, of New York. One of the signers of the call for the original convention. President, 1881 to 1891.



D. W. C. SKILTON

Phoenix Insurance Company, of Hartford. President, 1891 to 1894.



E. A. WALTON

Citizens' Insurance Company, of New York. President, 1894 to 1896.



WILLIAM B. CLARK

Ætna Insurance Company, of Hartford. President, 1896 to 1897.

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Chase, of the Hartford, a tall, slender man with the head of an Olympian Zeus, it turned to the amazing array of resignation letters that had accompanied the general-agent's report. It went into committee of the whole and there fulminated.

The ensuing debate was warm; the pages of the record glow with heat even after the lapse of forty years. Mr. Lamport, of the Continental, led the attack and cited instances of the unresponsiveness of the Executive Committee to the woes of the local agents. In Columbia, South Carolina, it seemed, there had formerly been no Non-Board agency. A local dry-goods merchant had been carrying \$80,000 insurance upon his stock, but when he added a millinery department, the supervising agent ordered a higher rate upon his whole stock. The merchant, in consequence, closed out his new department and asked to have his rate restored, but long negotiation with the all-powerful Executive Committee failed to bring it back, and the local agent in disgust finally turned away from his Board companies, and became an active Non-Board factor. Other cases were referred to, and the general criticism was to the effect that the Executive Committee was too masterful in its exercise of almost unlimited power. Members of that committee who were present naturally thought otherwise; they also expressed themselves, but the meeting resulted in the appointment of the Committee of Fifteen, already referred to.

It was an earnest contest between restless Democ-

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racy and efficient Autocracy; the fire-insurance profession was not yet ready for "Kultur."

It is not necessary to follow the complicated measures by which the Committee of Fifteen and others sought to restore workable conditions; reaction was once more in flood and its tide could not be stayed with a broom. A semiannual meeting in September did not avail and a "Meeting of Conference" was called in the week before Christmas. Here a bomb was fired by Mr. Skilton, of the Phoenix. He offered a resolution whose preamble stated frankly:

Whereas, It is plainly evident that the future success of the National Board of Fire Underwriters depends wholly on a full and firm confidence among the members in each other, and assuming that it is possible to restore this confidence, *it being granted that it is now practically lost*, be it—etc.

—in short, he proposed that the board abandon its rate-making powers in favor of the local boards, that it cut down all expenses of operation to the "lowest possible minimum," and that it discharge all of its salaried special or field-agents, getting such help as possible from the agents of the companies. This was earnestly debated; but the economy idea found lodgment and a Committee on Retrenchment was unanimously voted.

This committee reported at the annual meeting in the following April (1877). It recommended that

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the yearly expenses be reduced from \$113,000 to \$15,000.

This meeting was historic. The strongest men of the profession were in attendance, and all were aware of impending crisis. Upon a somewhat similar preceding occasion, the Chicago and Boston fires had restored solidarity, but now no conflagration was in sight; the sole question was as to the inherent vitality of the board as then constituted.

The Retrenchment Committee's report was followed by a debate of many hours. This was not academic; it was serious, even emotional. It was participated in by men who had built eleven years of their lives into the National Board, who had hoped for it, striven for it, sacrificed for it. Here was a vast machine, the creation of their hearts and brains; but a short time before it had seemed to be fulfilling their dearest dreams in its splendid effectiveness; they had glowed with pride as they had watched it, and now they were asked to consign it to the scrap-heap: so it seemed to them. The National Board had been primarily concerned in rate-control; rate-control required a large organization; the merest fraction of such an organization could not be maintained on \$15,000 a year. Retrenchment meant the abandonment of all that seemed most important. It was more than a business disappointment; it was a personal bereavement—a tragedy.

Rudolph Garrigue, the president of the Germania Insurance Company, led the attack. He was big,

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bearded, aggressive, and independent. With Teutonic directness, he drove straight to the heart of the subject when he said:

Members have felt the disadvantage of restraint, and have frequently acted on their own judgment, disregarding pledges, and the result has been demoralization and loss of faith in one another. This is a patent fact; everybody knows it; and few members to-day have any confidence in members at large. . . .

Rates—definite, unmistakable and inviolable—are desirable, but they have been proved impracticable. He who observes his pledges and adheres to his rates on principle, has to see his business swallowed up by a fellow member who acts on his own judgment, when, if he felt at liberty to do the same, he might often retain it at profitable rates below tariff, but, respecting his pledge, he can not, and he loses his faith in his fellow member, and, by consequence, in the efficiency of the board.

In view of all these facts . . . is it not wise to preserve the vitality of the board for attainable purposes, by removing the bone of contention presented by a rigid tariff?

There were, he said, six forms of service that could still be rendered upon the reduced appropriation. These were:

1. Maintaining archives.
2. Collating statistics.
3. Dealing with legislation.

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4. Combating arson.
5. Disseminating knowledge of fire causes.
6. Advising local boards.

He urged that the character of the work be changed to correspond.

Mr. Hope was one of those to whom the abandonment of Board ideals was most painful. In a long speech, full of eloquence and deep feeling, he argued against such reduction. "I feel," he said, "that for the National Board to take a position that practically abandons the question of rates is *humiliating*," and his voice quivered with emotion as he emphasized the word; . . . "In less than twenty days there will not be a local board with rates from ocean to ocean." He believed, he said, that it would be possible to adopt "such regulations as will conserve the interests of the companies as they stand to-day"; and he continued passionately:

Without providing for this (a nucleus for rate-control) we shall destroy the whole organization before May ends; and then we shall fight from hand to hand throughout the land, and who it is that shall take the hindmost I do not know. I believe most profoundly that the National Board has not done its duty. It has been over and over again paroxysmal in its action. We have not begun at the foundation to do our work. We have not educated the people. As a result, we find that the courts are against us, that jurors are against us, that the

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Press is against us, and that the legislatures are against us. They levy all sorts of taxes; they give us the most ungodly verdicts that man ever dreamed of—to their own hurt, and they do not know it. Why? Because we have not educated them. We must begin fundamentally to teach the people that the interest of the insurance companies and of the community is identical, and that they cannot cheat an insurance company without harming the people. I believe that this can be taught the people . . . and in a few years we shall have the people educated to such an extent that they will not give a verdict for a scoundrel, and will not assume that an insurance company is a fraud. Something like this would be my plan. . . . I believe that by adopting the measure I have suggested, we shall preserve much that is worth preserving; and if, finally, the thing drops out from under our hands, we, as a board, will not be responsible. We may say to this man or to that man, "Thou art the man," but it will not be said of us as a board. I am opposed to it (the report) in all its details.

This got under the skin of Mr. Garrigue, and he retorted: "He merely tells us that what we say is not worth shucks; that something better exists, but that which is much better has not yet been named."

Then Mr. Heald took the floor and analyzed the situation in a dispassionately legal way. "The main question," he said, "is whether or not we can maintain obligatory rates." He reviewed the causes of the present emergency, the claim of certain companies for

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floor-rights that others would not concede, the internal strife, the withdrawal of large foreign companies and others. "What was the result?" he exclaimed; "from that day forth, we found the opposition to the rates established by this board increased tenfold—in energy, in respectability and largely in financial strength, until . . . the Non-Board element can take the entire business of the country, with the exception of thirty or forty towns. . . . We cannot blind ourselves to the fact that we now have to contend with a competition which is nearly, if not quite, as strong for limited purposes as ourselves. They have the advantage of an army within walls, while we are without." Under the circumstances, he "could not vote for obligatory rates one day longer."

That, after all, was the logic of the situation; the substance of rate-control having passed, it was useless to continue the empty form. In the end, though many had their say, the reduction in expense was voted and the second period of the National Board came to an end with the death of fire-insurance autocracy.

The somewhat hollow honor of the presidency was conferred upon stout and optimistic Alfred G. Baker, of the Franklin Fire Insurance Company, who recognized present conditions and predicted their betterment by announcing the cheerful motto—"*Resurgam*"—"I shall rise again."

VI

EBB TIDE AND LOW WATER

(1878-1888)

NOW ensued a period of decline. For eleven years, the National Board wasted steadily away, like an invalid in a lingering sickness. At first, it refused to recognize its own invalidism and, in the year following its abandonment of rate-making, made an effort to restore this function. A circular letter was sent to all the companies issuing stock insurance policies—and there were more than four hundred of them—asking whether they were ready to get together on the basis of a rate-agreement. Replies were received from about half the number, and most of these were favorable, but the exceptions were too numerous for safety. The burnt child dreads the fire, or, as Mr. Heald phrased it, “It is needless for us to undertake to reestablish rates throughout the country, unless we have the readhesion of certain large and respectable companies who ceased to cooperate with us.” The effort therefore was abandoned. President Baker, his optimism somewhat impaired, omitted “*Resurgam*” from his 1879 speech, and chose a new motto—“THE TIME IS NOT YET.”

In the mean time, General Agent Montgomery had resigned, as a result of the reduced resources, and the supervision of the remaining activities devolved upon the secretary of the Executive Committee, Henry K. Miller, a man who was to serve the board with fidelity and zeal until his death, in 1910. -

Annual meetings were held with dwindling attendance; the hopeful tone faded from the speeches, and members dwelt fondly upon the glories of the past. The board retained its organization and went through a form of activity in the matter of arson rewards, insurance statistics, and a few other matters, but more and more it became a society that lived with its memories. Obituary notices of deceased members occupied a larger and larger place in the president's annual address. The atmosphere was not cheerful. A cartoonist represented Mr. Montgomery having his luggage removed from the house of death; a casket marked, "N. B.," stood in the center of the room, and mourners from the Executive Committee wept copiously in the background. This was a mistake; the board was not yet dead, but there were times when one must listen closely to detect a sign of life.

Insurance energy began to run in other channels. At some point in this period, the exact date is uncertain, that mysterious body, known as the "Underwriters Alliance," came into being. It circulated among its members daily reports on gray paper, containing such cryptic utterances as, "Number 41 has been accused of cutting rates at —; what has Num-

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ber 41 to say about it?" These daily reports were supposed to be kept carefully under lock and key. Some claim that the alliance was an "inner circle," whose primary purpose was to obtain control over the administration of the National Board, and others that it was merely for mutual interest; but, in any event, it was discontinued after several years.

Much more important was the United Fire Underwriters. This sprang from a resolution that Mr. Hope introduced at the 1880 meeting, calling for an effort "to unite the underwriters of the country in an organization whose purpose shall be to make the truths of insurance economy more widely known to policy-holders . . . as well as insurance officers and managers." It seemed to be assumed that an entirely new organization was necessary.

There is a cult that preaches the possibility of attaining fame and fortune through a change of name, and it is a sign of the times that the insurance profession was ready to make a test of the efficiency of this doctrine. The National Board had failed, but a new gathering of the same men, with the same "human nature," under the same conditions might succeed if only it called itself something else. The Executive Committee put out a "feeler" to the companies; the response was encouraging, and in October, 1880, some two hundred companies enthusiastically organized The United Fire Underwriters in America in the National Board rooms. It was to deal with all subjects *except* rates and commissions.

It is interesting to contrast the dignified, sadly reminiscent atmosphere of the board meetings with the vigorous optimism of the new-born body, meeting in the same rooms and containing many of the same members. For a time, it seemed that the change in name had been effective; once more all problems were to be solved out of hand. Even the excepted subjects were not neglected; one of the contemporaneous cartoons shows a husky young giant about to place a tough-looking nut, labeled, "Rates and Commissions," between his powerful teeth while a haggard, wraithlike figure of the National Board watched him skeptically. The caption follows:

U. F. U. in A.—Crack it? Of course I will.

N. B.—Well, perhaps he will. I used to think I was the man with the Iron Jaw, once. Now I'm the Man with the Broken Jaw. I guess I'll bet on the nut.

In the end, the nut won. The U. F. U. in A. terminated its joyous young life in four years, but the pallid patient, though fading steadily year by year, never ceased to breathe.

Most important of all the new development of the period was the organization, in 1879, of a body that has played a large part in subsequent insurance history—the (Western) Union. One of the factors that had led to the downfall of the centralized authority was sectional jealousy based upon the varying interests of different parts of the country, the differing

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lines of business, difference in methods of constructing buildings, etc. It therefore seemed wise to experiment with organization along more homogeneous lines by giving each section a body of its own, and the (Western) Union was at once recognized as prophetic of a new aid to underwriting. The National Board president in his annual address referred to it as "the one bright effort amid the darkness of this single year." It had been preceded, in 1879, by the Association of Fire Underwriters of Missouri, and was followed by the Southeastern Tariff Association, in 1882; the New England Insurance Exchange, in 1883; the Association of Fire Underwriters of Arkansas, in 1883; the Underwriters Association of the State of New York, in 1883; the Pacific Insurance Union, in 1884; the Minnesota and North Dakota Fire Underwriters Association, in 1885; the Kentucky and Tennessee League of Fire Underwriters, in 1889; and others at still later dates.

In 1882, the invalid made a sudden effort to regain vitality. Mr. Hendee, of the *Ætna*, offered a resolution limiting agents' commissions to 15 per cent. save in certain specified cases, and the resolution was carried.

With the single exception of rates, this subject of commissions was the most dangerous of any in the entire field of insurance. It continually was insisted in board meetings that the agents were receiving too large a compensation for their work. One of the

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favorite forms of recreation always had been that of resolving to limit commissions. It had been done in 1866, 1867, 1869, 1872, 1873, 1874, 1875, 1876 and 1879. These resolutions generally were "unanimously adopted." Sometimes they were followed, after a few months, by other resolutions to "suspend" or "postpone" or "declare exceptions."

At no time is it probable that they caused much apprehension among the agents themselves, although the limitation of commissions occasionally stood for a brief period as National Board law. The following incident related by one of the older underwriters may shed some light:

At one time I received a circular from the National Board asking whether I had allowed any commission in excess of the board standard of 15 per cent. I replied that I had in one instance and gave particulars.

Soon afterward I was summoned before a meeting of the Executive Committee. They were seated around a large table and looked very grave. It was stated that I had been guilty of a serious misdemeanor; what had I to say for myself? I answered that I had openly acknowledged what was the common secret practises. I told them that, to my personal and positive knowledge, every underwriter in the room, with one single exception, had been doing the same thing.

Mr. — got up and asked indignantly if I included him. "No," I said, "you are the one exception." A far-

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away look came into the eyes of the rest. They changed the subject and the meeting adjourned. I never heard of it again.

It, therefore, was one of the profoundest symptoms of the National Board's depleted vitality that it should have allowed several years to pass without taking action upon the subject of this general custom. It was almost like a man's neglecting to shave and change his linen, and when Mr. Hendee, whose sincerity no man could question, proposed that commissions be limited to 15 per cent., Mr. Oakley exclaimed joyously, "I think it is the first entering wedge toward the reestablishment of the National Board." The very sound of the good old resolution recalled to mind the days that were no more. The proposal was carried quite as unanimously as usual. Strangely familiar, too, are certain notes that began to appear in the minutes of succeeding months, such as:

Resolved, that in view of the difficulty of enforcing the 15-per-cent. commission rule . . . Washington, D. C., be made an excepted city.

. . . At a subsequent meeting in June, New Jersey was added to the excepted territory, owing to its position between New York and Philadelphia and the influence throughout the state of the brokerage system prevailing in those cities. . . .

. . . The most difficulty has been experienced in the state of Virginia . . . it seems a proper question for the

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Board to consider whether any relief shall be granted there . . .

Resolved, That the Special Committee of Five be instructed to correspond with the individual members of the National Board with a view to ascertaining how far each Company carries out the present 15-per-cent. commission rule, . . . etc., etc.

The growing difficulties are reflected in the fact that, at its April, 1885, meeting the Executive Committee directed Secretary Miller to circulate a paper, beginning:

The undersigned companies, by their signatures hereto, signify their willingness to cooperate in establishing a uniform rate of commissions to agents, and a uniform rate of commissions to brokers. . . .

He did so, and at the annual meeting in May reported that one hundred and forty-two companies had signed the paper. This resulted in a call for a meeting of the signers, which meeting, held in June, formulated a stringent "commission compact," intended to solve, once and for all time, this harassing problem; incidentally, it was not to become operative until signed by one hundred and twenty companies.

The first ninety signatures came with comparative ease and every one felt such encouragement that a cheerful air once more pervaded headquarters. A well attended twentieth-anniversary meeting was held

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in June, 1886, and much hopeful talk was indulged in. At this time it was voted to rescind the 1882 resolution and to replace it by the "compact." Then the "compact" signers were all declared eligible to board membership by special resolution. It was assumed, and the wish was father to the thought, that nothing now remained but to secure the other thirty signers, elect them all to membership and, *voilà*, there again would stand the old National Board in full plenitude of power! Extraordinary efforts were made, but the next seven months added but five more names—still twenty-five short. Then the pledge was modified, and eight more signatures wrung from the unwilling residue. There, finally, it stuck; the last convulsive effort of the old National Board law-making machine was firmly motionless on dead center. A discouraged committee so reported at the May, 1887, meeting of the Executive Committee. All realized that the old régime had passed.

This was the year when, for the only time in its history, there was no annual meeting of the board.

The lowest point was reached in the spring of 1888. The membership was reduced to twenty-five and, while the annual meeting was not omitted, it was attended by but eight of the faithful. Before drawing the curtain over this darkest period, it may be well to let President Heald sum up the general insurance situation in the concluding words of his Annual Address; he said:

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Two years ago . . . a list was given of five hundred and ninety-two companies that had failed or retired from business since 1860. The aggregate capital of such companies was then stated to have been \$81,203,441, with assets to the amount of \$134,413,777 lost in or withdrawn from the business. Since that time the dreary list has been lengthened by an addition of fifty-three Companies, having capital amounting to \$8,178,210, and assets of \$10,283,068 at time of retirement.

This brief summary of the past is full of meaning, and suggestive of what may yet be in store for us in the near future, unless radical action is taken at once to recover lost ground by the abandonment of pernicious practises, criminal competition, and this suicidal increase of term-business based upon a ruinous annual rate and the unsound formula of calculation in growing use during the past ten years. With the ratio of burning fearfully on the increase, with rates reduced below the safety-point of an ordinary ratio of burning, and expenses steadily increasing, the time is at hand when the survival of the fittest may become a problem of no easy solution with even the best of our fire companies.

I can do no less than press upon you the importance, yea, the vital necessity, of united and vigorous effort to turn back this advancing tide of unwholesome competition that has already well-nigh engulfed our business, and threatens ultimate destruction to the companies we serve, and the loss to ourselves of all we should hold dear as underwriters seeking to honor the profession we have chosen.

VII

THE RETURN OF THE TIDE

(1888-1892)

IT may be well to pause at the threshold of a new era and grasp the general significance of the preceding twenty-two years' events. There are some respects in which the business of fire insurance is highly individual, and others in which it is fairly typical of Big Business as a whole. In a sense, the strange alternations of fortune that attended the National Board furnished a series of gigantic laboratory tests, of which the lessons might be widely applied. One cannot fail to be conscious of the presence of big, elemental forces that aided, diverted, or checked in a way that was often greatly at variance with the purpose of those in authority.

A business, hardly ranked by any other in size, extent, and general importance to the country, had been close to ruin through unrestrained competition. Its companies, in extremities, had sought a defensive pact to limit competition. Under the stimulus of two great fires, this instinctive action had resulted in the formation of the largest and most powerful business organization that the United States had ever seen. The power thus attained had been, for the most part,

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wisely applied for the mutual interest of the business and the community, but it had fixed its reward at too high a figure. There had been no apparent purpose or even consciousness of extortion. The companies had been in peril through undercharge and now merely "played safe," but the result had been unwise overcharge. At this point, the power to enforce had begun to crumble. Those in authority being too close to the subject for proper perspective, the symptoms, and not the real causes of the disease, had come in for treatment, and the results had been disastrous. Coercion had been tried, and this made an opportunity for the very competition it had sought to avoid.

Thus, long before the day of the trusts, it had been demonstrated that, in the fire-insurance field, at least, no combination that restrained trade or exacted excessive prices could long endure; this lesson was never forgotten.

The difficulty of maintaining voluntary trade-agreements had been illustrated anew. In spite of various instances of bad faith, the standard of ethics among underwriters was probably higher than that obtaining in most lines of business. None other presented such temptations. The vast fabric of American fire insurance covered every city, town, village, and country district; it employed scores of thousands of agents and protected millions of individuals. At every point the pressure for lower rates was urgent and unceasing. It is really a source of wonder that

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there should have been periods of even comparative unity.

For a third lesson, it had been shown that the purely technical side of insurance furnished an insufficient basis for such an organization as the National Board. While its needs could best be served by private capital, the business had become national in its extent, and semipublic in its functions; it called for a wider range of constructive thought. Unconsciously and inevitably, the board now began to take on the character of a public-service institution. This development is an inspiring example of the process of evolution in action.

This, however, is somewhat ahead of the point which the story has now reached. May, 1888, found the general fire-insurance situation badly demoralized and the National Board close to extinction. It was necessary, it appeared, to remove another "bone of contention," that of commission control, from its wasted frame; the disheartened officials performed the final operation. The last action of the annual meeting was the adoption of the following resolution:

In view of the fact that there is now no rule of the organization limiting commissions to 15 per cent., that rule having been rescinded by the vote at the meeting of July 20, 1886, and the commission compact substituted for the said rule having failed to receive the number of signatures required to make it operative, therefore be it

Resolved, that the officers and Executive Committee of

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the Board be requested to take measures to increase the membership, in order to strengthen the organization, and more efficiently promote the purposes for which it was originally instituted.

An invitation, embodying this resolution, was sent out to Non-Board companies with gratifying results; a warm Southern breeze blew across the ice-bound field, and the patient began to show unmistakable signs of returning strength. At the meeting of May, 1889, nearly fifty representatives were in attendance and there was a renewed air of cheerfulness.

Freed at last from the dominance of rates and commissions, the work of the committees now began to stand out in stronger relief and the board assumed more of its present form of activities. An important action was taken in the fall of 1889, when the Committee on Fire Departments, Fire-Patrol and Water-Supply was authorized to engage an expert to "examine into the present condition and needs of the fire departments and fire facilities throughout the country." Assistant Chief John W. Smith, of the Brooklyn Fire Department, was engaged as inspector of Fire Departments for the National Board, and active work was begun.

It was during this period (in 1890) that the Factory Insurance Association was organized by some of the stock companies in order to meet the competition of the "factory mutuals." The origin of these mutuals is discussed in a later chapter. For many years

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they had been especially active in New England where by advanced methods of fire protection they had cut the cost of insurance among their members to a remarkably low figure. It had become difficult for the stock insurance companies to compete with them for the better class of factory risks. By 1883, the mutuals carried \$350,000,000 of business in Massachusetts and Rhode Island alone. Soon after this, the Phenix (of Brooklyn), the Queen and the New Hampshire Fire, all stock companies, followed in the foot-steps of the mutuals, and cooperated in improving their factory risks, particularly by means of installing sprinklers, with a corresponding rate reduction. The results were so satisfactory that other underwriters began to take notice, and a Factory Improvement Committee was formed in the New England Exchange. This was followed, in 1887, by the New England United Bureau of Inspection, and three years later, the idea broadened into the Factory Insurance Association and its sister organization, the Western Factory Insurance Organization. These Associations act both as solicitors of business and inspectors of risks; they deal with certain classes of factories, and have greatly reduced loss ratios and premium rates by means of fixed standards of fire protection and moral hazard.

Perhaps no feature of the time occasioned more anxious thought on the part of underwriters than the great spread of "Valued Policy" legislation. Nearly

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twenty years earlier, the state of Wisconsin had enacted such a law, as already noted in Chapter IV, and since that time the idea had been growing disastrously popular with legislatures in other states. It provided that a policy-holder, suffering a total loss, could collect the entire face-value of his policy no matter what might have been the actual value of the building or goods destroyed; the policy, itself, was regarded as evidence of the value of the risk. In the case of an honest policy-holder, there was no special menace in such a provision, but it opened delightful vistas of easy money before the eyes of crooks; a little judicious use of kerosene and the touch of a match—that completed the simple process. If the loss were total—and that could be managed—the policy, backed by the law, settled the amount to be paid and forbade dispute. In the words of the New Hampshire Insurance Commissioner in 1881, “The most adroit rogues themselves could not devise a more efficient scheme to facilitate the burning of property and the enriching of participants in the crime.”

Clouds of suspicious smoke began to rise plentifully over Wisconsin and some other states. Each cloud had a silver lining to the pleased vision of some enterprising citizen, but the companies that furnished the silver were less enthusiastic. They naturally realized that the “Valued Policy” law increased the hazard and raised their premium-rates wherever it prevailed. Thus the honest many were compelled to pay for the crooked few; things usually work that way. At the

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1890 meeting, the president reported that this law had caused an increase in the ratio of burning of .7205 for each \$100 of premiums, in Wisconsin; had cost the policy-holders of the state \$876,087, in increased premiums, and had cost the companies \$1,767,506 beyond this amount. Incidentally, it may be said that Wisconsin has made some slight amends for its disastrous innovation by being the first state (1915) to repeal its "Valued Policy" legislation, which it has recently branded as "absolutely vicious." Such laws, however, are still in force in twenty-two states, and similar bills are frequently introduced in the legislatures of others.

The National Board was active in a campaign of education to check the spread of this measure.

It was during this period also that "Anti-Compact" legislation became especially prominent. The public, failing to realize that premium-rates must rest upon certain fundamental laws, preferred to consider them as a matter of competitive bargaining, and various legislatures undertook to enforce this view, by means of laws making it a crime for underwriters to attempt to secure uniformity. The first signs of this legislation had appeared a few years earlier. In 1883, it is said, certain Grand Rapids furniture manufacturers opposed the rates of the Grand Rapids local board and caused an "Anti-Compact" measure to be introduced in the Michigan legislature, where it failed of passage. Ohio, in 1885, was the first state to pass such a law; Michigan followed in 1887, Ne-

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braska and Texas in 1889; after that they came thick and fast. This form of legislation, as later will appear, is to-day one of the most serious deterrents to sound underwriting.

An illuminating incident occurred in New Hampshire in 1884 and 1885. A wealthy and influential citizen of Portsmouth owned a large hotel which was damaged by fire. The hotel had been insured by a prominent company and the adjustment was entrusted to an adjuster of high reputation; nevertheless, the owner felt dissatisfied with the payment, and, in a spirit of revenge, struck back through the legislature. He inspired the passage of a law which contained an "Anti-Compact" provision, a "Valued Policy" measure and other objectionable features. The consequent withdrawal from the state of all the companies without exception as to stock or mutual—the New Hampshire companies only remaining—was one of the notable events of that year in the fire insurance business. The withdrawal compact, signed by every company, continued in force four and one-half years, and the original draft is now hanging on the walls of the Insurance Library Association of Boston.

In 1891, Mr. Heald brought his long administration to an end. He had been elected president in 1881, to succeed M. Bennett, Jr., of the Connecticut Fire Insurance Company, and it had been an eventful decade. D. W. C. Skilton, of the Phoenix (of Hartford), was chosen to succeed him.

VIII

THE GROWTH OF FIRE PREVENTION

(1892-1896)

THE year 1892 found the National Board animated with a new spirit. The rejuvenated organization had set its face in another direction; it was conscious of an altered destiny.

The president, in his annual address, struck the key-note at once. He called attention to the \$140,000,000 fire waste in 1891, and added, "That the people are beginning to realize that this enormous waste is becoming a national burden of serious import is quite apparent. . . . The press and the people seem to have arrived at the conviction that the destruction of property by fire is increasing far more rapidly than the growth of population or the development of the country, and that unless it can be checked, the cost of insurance to the public must be greatly increased; otherwise there will be a still greater withdrawal of capital from the business of fire insurance." Then he enunciated the modern doctrine in Fire Insurance, in these words:

The old theory . . . that a risk should be written as found, and a rate adequate to the hazard be charged is fast becoming obsolete, and to-day all local and district

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associations, and all syndicates for writing great industries *are aiming to secure improvements in construction and greater care, and all favor the introduction of automatic and other appliances for the prevention and extinguishing of fires*, the inducement to the assured being a greatly reduced rate for this lessening of hazard.

From this time, the question of fire prevention occupied an increasingly large place in insurance discussion and was recognized as one of the chief functions of underwriting. Once again, a change was due to the pressure of outside conditions, to the requirements of environment, not to altruism.

The new spirit showed itself in various activities. A letter was written to President Harrison asking that he recommend to Congress legislation on the investigation of fire causes, on the construction of buildings, on the regulation of special hazards, and on requirements for greater public carefulness. The companies had made many efforts to secure national legislation on fire insurance; now they moved to make fire-prevention a national matter. This was followed by a letter to the governors of the different states in the matter of state legislation for investigating fire causes, and this, in turn, by letters to all of the insurance commissioners asking their cooperation to the same end. Such a law, drafted by underwriters, was introduced into the New York legislature. A pamphlet on fire-waste was given wide circulation.

Meanwhile there had been a conference, at the

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rooms of the board, with committees of architects, builders and fire engineers on the subject of improving construction, and a little later, the National Board was represented at the National Convention of builders. A model building law was introduced at Albany, and there were great hopes of its passage, but it was killed in a familiar political way "through the efforts of members of the Assembly from Buffalo, Jamestown, and a number of small cities, to secure exemption for their cities." The board, however, printed a number of copies of the proposed law and circulated them throughout the country as a model for legislation in other places. In 1896 it voted to frame a still better measure to be known as the "National Board's Model Building Law." There were many similar activities.

It was during this period that there occurred a development which was not without dramatic values. The underwriters had become aware of a new foe in the field, a mysterious, unseen influence working powerfully against them. There had begun to be a marked increase in losses in the better class of risks; the companies were suffering where they had felt most secure. Could the spirit of arson be spreading among the best citizens? This was unthinkable. Then they awakened suddenly to a consciousness that the hidden enemy was *electricity*. The world had entered upon a new age.

Heretofore, electricity had given but little concern. When electric lights had made their appear-

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ance, it was generally believed that they would greatly decrease the perils of oil and gas illumination, but now it was found that they presented still greater dangers of their own, and this was true of motors, trolley-cars and other devices of the new era. Some of the greatest mercantile fires were traced to this cause. It was a dangerous flank attack from an unexpected quarter and required prompt measures of defense. Accordingly, on August 17, 1892, there was an emergency meeting of insurance electric-light inspectors at the National Board rooms, and representatives of many underwriters' associations were in attendance. It resulted in the formation of the Underwriters International Electric Association and the formulation of the National Board Electric Code to govern installations.

Some of the discussion of the time shows the depth of concern that was felt. Said a member at one of the board meetings:

We cannot assume that the most reputable merchants have all at once become criminals. We find that our better class of risks is burning in a greater ratio than ever before, and that there are mysterious causes at work, which we do not understand . . . that mysterious element I believe to be electricity. . . . I believe this is what is burning us out, and running up our mortality-rate to such an unprecedented figure. . . . When we consider the appalling increase in fires during the last eighteen months we may well be startled. We are standing, I

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repeat, in the presence of a mysterious element which no one is at present able to fathom.

Incidentally, Mr. Heald had an opportunity to register an interesting prediction. He said:

I remember when about 1855 or 1857, with the discovery of petroleum, and the coming-in of kerosene and afterward of gasoline, we felt we were confronted with a very difficult problem, and kerosene fires were frequent—the greatest ones we had were traceable to that agency. We did not know much about it, but gradually we got a little knowledge, until at last, we felt that we understood very well the properties of petroleum in its various forms and products, and could prescribe rules to make the use of it safe. . . . I do not see why we should not do the same with our knowledge of electricity. Let us go as far as we know now. . . . By and by, after we shall have had experience enough, and after the scientists shall have continued their experiments and research long enough, we shall be able to formulate a set of rules, a compliance with which makes the use of electricity as safe as the use of kerosene or petroleum in any form is to-day. *We may be able to send messages without the use of a wire.*

This was on May 18, 1893—several years before the appearance of wireless telegraphy.

By 1896, the Electrical Bureau of the National Board was deeply engaged in a study of the new hazard and was issuing frequent illustrated reports, which were earnestly studied by underwriters.

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In reviewing the fire-prevention activities of the period, it must not be assumed to have been the only topic of consideration. There was merely an added emphasis given to this line of thought and discussion, and underwriters by no means ceased to be underwriters upon the more technical sides of their business. Presidents' addresses and committee reports still bristled, as of yore, with facts and figures on rates, dividends, policy-forms, legislation, taxation, adjustments, and many other subjects. President Skilton was succeeded by E. A. Walton, of the Citizens' Insurance Company (of New York), and the board membership grew steadily, reaching one hundred and four companies in 1896; once again it could claim to stand for the weight and influence of the entire profession. Ex-President Baker had gone to his reward, but his prophecy "Resurgam" had been amply fulfilled.

IX

THE NATIONAL BOARD AS A BALANCE WHEEL (1897-1899)

IN 1899, there came an opportunity to prove that an organization without legislative powers could still be virile and effective in the matter of rates. When the National Board had abandoned rate-making twenty years earlier, this function had devolved on various local organizations and one of these, the New York City Tariff Association, had broken down under a severe outbreak of local rate-cutting. Human nature flamed up in all its old-time ardor of combat, and the war cut millions of dollars from premium receipts in the metropolis. Worse than this, it threatened to spread to other boards and to draw the whole country into the maelstrom of disorder. Fire insurance had become an institution of such huge proportions that its general demoralization would be a matter of national moment. It was the dangerous strife of giants.

At this moment, the president of the National Board issued a call for a conference which resulted in the formation of the New York Fire Insurance Exchange, and this new body proceeded to reestablish sound practise and tranquillize the situation.

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Under the old autocratic rule, the board would have made a national issue of the local conflict by attempted coercion; in its new rôle, it exerted the powerful influence of moral suasion and *prevented* the issue from becoming national. Apparently, the board was learning strife prevention as well as fire prevention.

This incident occurred under the administration of President Irvin, of the Fire Association, of Philadelphia. His second predecessor, William B. Clark, of the Ætna, had stated that the board, in relinquishing its legislative powers, had "placed itself on a higher plane" and had "increased its influence in other directions." This point he had demonstrated in many ways, including efforts with the Governors of all the states in behalf of fire-waste legislation. The new, old National Board was no longer a Machine but an Influence.

It was also during the administration of Mr. Clark that the board made an important definition of its position upon the subject of foreign companies. This was at the May, 1897, meeting. The Committee on Legislation and Taxation had just made a report in which it expressed disapproval of the fact that several states were ~~showing a disposition~~ to levy larger taxes upon foreign companies than upon those of America. It was pointed out, in the report, that this was unjust to the foreign capital that shared the risk of protecting American property, and that it was a dangerous precedent which, in time, might lead to

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discrimination by one state against the companies of another. A warm debate followed. A small but determined minority held that foreign capital should be discouraged, but the broader view prevailed by an overwhelming majority, and the committee's report was sustained. As if to emphasize the thought of international comity, the Nominating Committee brought in the name of Henry W. Eaton, of the Liverpool, London and Globe Insurance Company, and he became the first president chosen from a foreign company. Thus again was the harmonizing spirit dominant in board affairs; the board definitely had "placed itself upon a higher plane."

X

AN ENLARGEMENT OF ENGINEERING ACTIVITIES (1899-1903)

WHILE these events were in progress, sacrifices to the God of Fire in America grew always more and more enormous. If alarm had been felt when the aggregate loss reached \$43,000,000 in 1865, how shall the feeling be described when, in 1899, this figure exceeded \$153,000,000, in spite of all insurance efforts at fire prevention? The companies were stronger and better organized than ever before, but the magnitude of the losses might well cause dismay.

In seeking for new methods of necessary readjustment to these conditions there was a brief period of attention given to an old idea. It seemed to some that the time was favorable for the reassertion of control over rates and commissions, and a Committee of Twenty-seven (the profession has always been addicted to numerical committees) was appointed to consider the subject. The committee called a convention of companies on June 21, 1900, and submitted a carefully prepared compact, "The Agreement of 1900"; it was authorized to procure signatures of assent, but failed, and the Agreement never became

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an agreement, although a second convention was held and a modified form of compact attempted. The old idea had gone out from the national field.

Closer to the spirit of the age was an intensified fight against fire. To this end, a highly important line of work was now inaugurated. Fire-loss figures had proved that fire-prevention work undertaken spasmodically was of little avail; there must be a systematic and organized action. For this purpose, uniform rules in regard to devices and materials entering into fire hazard were necessary and precise knowledge must be substituted for guesswork. The Executive Committee called representatives of the various underwriting organizations together, and, after many conferences, a plan for a Board of Consulting Engineers was evolved. To this board should be referred fire-hazard questions; it should make tests, "when practicable," of various appliances, and its actions, when approved by the Executive Committee, should be advocated by the members of the National Board. The seed thus planted, on December 28, 1899, grew in time to large proportions. as will appear in later chapters.

Another of the far-reaching developments of the period was the decision to assume the expense of printing and circulating descriptions of the standards formulated by the National Fire Protection Association. This association, of which more anon, had been organized in 1896, largely through the instrumentality of the National Board. It was now engaged in a

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scientific study of standards for automatic sprinklers, fire-extinguishers, fire-proof doors and other fire-resisting devices, and it was doing excellent work. The board made an initial appropriation of a thousand dollars for printing the results of these labors.

Much of the interest of the time continued to be focused upon the relation of electricity to the origin of fires. This great antagonist of the insurance companies was no longer a mystery, its laws were being discovered and its myriad methods of attack were being carefully noted. More and more it was coming to be realized that the electric current was one of the chief factors in the country's tremendous fire-loss. As its use was broadening, the hazard was increasing from day to day. A few typical cases taken at random from the hundreds in the Electrical Bureau's reports will show the universal and many-featured nature of the peril:

IGNITION OF ESCAPING GAS BY AN ELECTRIC ARC. A building which had been undergoing repairs collapsed at two A. M. The chief of the Fire Department arrived promptly and telephoned to the various electric-light companies to shut off the current. Within twenty-five minutes all the electric companies with one exception had complied. After one hour and eight minutes, a fire broke out in the ruins, causing a serious loss. The cause of the fire was undoubtedly the ignition by electric-light wires of escaping gas which had permeated the ruins. The loss was estimated at \$130,000.

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TWO ELECTRIC FLATIRONS LEFT IN CIRCUIT became overheated and set fire to tables, boxes, and piece-goods of a tailoring establishment located in the basement of a building. The fire-proof construction of the building prevented what might have been a serious loss, *as the fire occurred about midnight when no occupants were about.*

BLOWING OF A FUSE in an open fuse-block installed in a cotton-mill threw molten metal into some bagging near by, causing it to ignite and set fire to the mill. The insurance loss was \$3,805.09.

BROKEN INCANDESCENT LAMP-BASE. A window-trimmer arranged an elaborate display of incandescent lamps in the midst of some inflammable merchandise and failed to notice that one of the lamps had become broken. The trimmings having been completed, the lights were turned on, and a flash of fire took place among the dainty fabrics. . . . The loss was \$1,500.

A CONTACT BETWEEN TROLLEY AND TELEPHONE-WIRES was produced by the jumping of the trolley wheel of an electric car from its own wire. A heavy current was conducted to two telephones, causing their destruction and starting fires in both places.

SPARKS DUE TO QUICK REVERSAL OF A MOTOR USED FOR OPERATING AN ELEVATOR set fire to sawdust which had been placed under the armature bearing to soak up the oil.

This list might be indefinitely extended. The widely diversified uses of electricity and the fact that it often operated behind walls or under floors made

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this Protean fire-peril one of the most serious subjects for underwriters to consider. One of the insurance journals published a table of electrical fire statistics showing an increase from one hundred and twenty-one fires, with a loss of \$1,245,971, in 1890, to seven hundred and fifty fires, with a loss of \$6,428,815, in 1900. These figures were far short of being exact, for the Electrical Bureau gave a list of 2,650 such fires for the year ending April 10, 1900, and the Committee on Lighting, Heating, and Patents estimated the number of those causing losses of less than a thousand dollars each, as about eight thousand. In addition to the known cases, some of the largest fires were under unproved suspicion—fires so frequently consume all evidence of their origin—as having been due to the same cause. It was evident that electricity, mankind's new servant, was costing the insurance companies many millions of dollars a year. It also was costing the public large loss in life and property, but the underwriters, as now was becoming habitual with them, were the ones to lead in defensive measures.

This phase of the work broadened rapidly. Additional appropriation was made and additional experts were employed. The National Electrical Code was revised, and thirty thousand copies were circulated through the various underwriting associations of the country. A campaign was undertaken for the purpose of securing the adoption of this code by cities and towns, and by April 24, 1901, it was being enforced

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by one hundred and twenty-five municipal governments. But perhaps the most far-reaching engineering development of this period was the organization, in November, 1901, of the Underwriters Laboratories, Inc., a remarkable institution, the story of whose achievements will be reserved for a later chapter.

In the mean time, the organic life of the National Board was proceeding in a healthy manner. President Irvin was succeeded by George P. Sheldon, of the Phenix Insurance Company, and he, in turn, by Robert B. Beath, of the United Firemen's Insurance Company. In 1903, Henry H. Hall, of four companies (the Union Assurance Society and the Law, Union and Crown, both of London; the State, of Liverpool, and the Victoria, of New York), was called to the presidential chair. Short terms had become the accepted custom, in contrast to one ten-year term in the period of stagnation, and the presidency of the National Board was universally regarded as the highest honor in the fire-insurance profession. By 1901, the membership had mounted to one hundred and twenty-nine companies—more than five times the number that had been enrolled a brief thirteen years before.

In the same year, the board did a piece of long-neglected pruning in the statement of purposes in its constitution; it cut out two dead and withered branches which once were its pride; viz.: "to establish and maintain as far as practicable a system of



HENRY W. EATON

Liverpool and London and Globe Insurance Company, of England. President, 1897 to 1898.



E. C. IRVIN

Fire Association, of Philadelphia. President, 1898 to 1900.



GEORGE P. SHELDON

Phenix Insurance Company, of Brooklyn. President, 1900 to 1902.



ROBERT B. DEATH

United Firemen's Insurance Company, of Philadelphia. President, 1902 to 1903.



HENRY H. HALL

Union Assurance Company, of London.
President, 1903 to 1904.



JOHN H. WASHBURN

Home Insurance Company, of New
York. President, 1904 to 1906.



GEORGE W. BURCHELL

Queen Insurance Company, of New
York. President, 1906 to 1908.



J. MONTGOMERY HARE

Norwich Union Fire Insurance Society,
of England. President, 1908 to 1910.

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uniform rates of premium," and "to organize and sustain local boards of fire underwriters."

In no way can the change in the spirit of board affairs be better appreciated than by comparing the "statement of purposes" which closes the first chapter with those which successive modifications had now brought to pass. These were:

1. To promote harmony, correct practises, and the principles of sound underwriting. To devise and give effect to measures for the protection of the common interests, and the promotion of such laws and regulations as will secure stability and solidity to capital employed in the business of fire insurance, and protect it against oppressive, unjust, and discriminative legislation.

2. To repress incendiarism and arson by combining in suitable measures for the apprehension, conviction, and punishment of criminals guilty of that crime.

3. To gather such statistics and establish such classification of hazards as may be for the interest of members.

4. To secure the adoption of uniform and correct policy-forms and clauses and to endeavor to agree upon such rules and regulations in reference to the adjustment of losses as may be desirable and in the interest of all concerned.

5. To influence the introduction of improved and safe methods of Building construction, encourage the adoption of fire-protective measures, secure efficient organization and equipment of Fire Departments, with adequate and improved water-systems, and establish rules designed to

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regulate all hazards constituting a menace to the business. Every member shall be bound in honor to cooperate with every other member to accomplish the desired objects and purposes of the board.

Paragraph 5 would never have entered the consciousness of one of the constitution makers of 1866, at least it seems to have occurred to no one. In those days, the business of underwriters was underwriting—neither more nor less.

XI

BALTIMORE AND SAN FRANCISCO

(1904-1906)

OUTSIDE of war, the most dramatic events of American life have been furnished by conflagrations. By strange coincidence the most terrible conflagrations in our history have appeared in groups; the Chicago and Boston fires, in 1871 and 1872, and the fateful years of 1904 and 1906, when Baltimore, Toronto, Rochester, and Yazoo City all suffered disastrous fires, and the greatest fire catastrophe of history caused a large portion of San Francisco to go up in smoke.

On February 7, 1904, the nation received a shock such as it had not known in thirty-two years. A fierce blaze developed in the most substantial section of the city of Baltimore and, driven by the high wind which naturally causes conflagrations to spread, it swept over many blocks of the city's finest business buildings. The total loss reached \$50,000,000, of which some \$30,000,000 fell upon the insurance companies. This loss, added to the heavily increasing totals of the preceding years, was sufficiently startling, but what caused especial dismay was the evidence that some supposedly fire-proof forms of construction could not stand the test of a great fire.

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American life was steadily tending toward congestion in cities where single buildings often represented values equal to those of small towns. Concentration of wealth meant concentration of risk, each citizen being imperiled by carelessness or accident among an indefinite number of neighbors. It had been generally assumed that modern construction and modern fire-fighting had largely obviated this peril; now it was seen that this belief was mistaken. If substantial, well-built Baltimore could be laid waste, wherein lay safety? As if to emphasize the lesson, ten weeks later the city of Toronto was subjected to a \$12,000,000 conflagration.

The annual meeting of the National Board in May found the underwriters fully alive to the situation. Reports were read by several engineers who had made expert investigations on the ground, but the predominant question was that of the future. One of the experts had stated that "nothing happened at Baltimore that might not have been foretold by a study of the fire records of the past"—how, then, should other conflagrations be guarded against? To this end a Committee of Twenty already had been appointed by the Executive Committee. Its twenty members included some of the strongest men in the profession; they were specifically charged to define the boundaries of congested districts in all the cities, to study the dangers of conflagration, and to prepare an insurance schedule to correspond. It was an extensive program, but the need was urgent;

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the committee was authorized to employ whatever assistance might be deemed necessary.

By May, 1906, it was able to make an impressive report; conditions had been minutely studied in fifty-five large cities with a wonderful increase of knowledge. The work had taken the time of many engineers and had cost the companies \$183,635. Most important of all, the committee's recommendations regarding water-supplies, fire departments, and fire-alarms had been widely adopted by the inspected cities. Forty-two municipalities had been stimulated into spending an aggregate of more than \$37,000,000 to guard against conflagration; they had been convinced that an ounce of prevention may be a wise investment. It is a coincidence that San Francisco was not one of the forty-two. It is also a coincidence—a solemn one—that the report of the Committee of Twenty, upon its inspection of the Coast metropolis, contained these words:

While two of the five sections into which the congested-value district is divided involve only a mild conflagration hazard within their own limits, they are badly exposed by the others, in which all the elements of the conflagration hazard are present to a marked degree. Not only is the hazard extreme within the congested value district, but it is augmented by the presence of a surrounding compact, great-height, large-area, frame-residence district itself unmanageable from a fire-fighting standpoint by reason of adverse conditions introduced by topography.

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In fact, San Francisco has violated all underwriting traditions and precedents by not burning up; that it has not done so is largely due to the vigilance of the fire department, which cannot be relied upon indefinitely to stave off the inevitable.

This was in October, 1905; six months later, San Francisco had ceased to "violate underwriting traditions."

The afternoon papers of April 18, 1906, announced to a startled world that there had been an earthquake in San Francisco; later editions contained the supplementary news that fires had broken out at many points, not less than fifty having appeared within the first three hours. By the following morning, all thought of the earthquake was overshadowed by despatches conveying the news that large sections of the city had become roaring furnaces of flame, whose progress it seemed impossible to stay. The Fire Department had responded promptly and had worked with desperation, but the water-mains, broken by the earthquake, had yielded little supply. With the aid of the police, of troops from the army reservation, and of thousands of citizens, the department had battled for three days and part of a fourth, making an unprecedented use of explosives, but a city which was 90 per cent. built of wooden buildings offered ideal conditions for the spread of the flames. Even when the fire reached the district of the finest business blocks, its extraordinary intensity

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caused it to do enormous damage. As in the case of Baltimore, supposedly fire-proof structures suffered heavy loss; many of these survived as buildings, but in uninhabitable condition and with the loss of their contents.

When a drenching rain upon the fourth day extinguished the remaining embers, it was found that the flames had devastated 2,831 acres, five hundred and twenty blocks, containing twenty-five thousand buildings and including the finest portions of the city. A large part of the population was homeless; the loss of life had been heavy, and the property loss reached the staggering total of \$350,000,000. Thus had occurred the greatest conflagration of history in swift and conclusive verification of the warning given by the National Board engineers.

The United States Geological Survey, in its study of the disaster, quoted this warning, and continued:

The fire which has practically destroyed San Francisco has more than fulfilled this prophecy. The destruction was greater than in the Baltimore fire, because the fire was hotter, owing, as has been pointed out, to the inflammable surroundings and the unprotected openings and to the unchecked sway of the flames. The heat was so intense that sash-weights and glass melted and ran together freely. In some places the edges of broken cast-iron columns softened, the tin coating in piles of tinned plate volatilized, even in the middle of the piles, and nails were softened sufficiently to weld together. The maximum tempera-

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ture, lasting for a few minutes in each locality, was probably 2000° or 2200° F., while the average temperature did not exceed 1500° F.

So overwhelming was the disaster, that all parts of the world sent contributions to relieve the distress, but it was, of course, to the insurance companies that the stricken city looked most expectantly, as did Chicago, in 1871. The great development of the insurance business was now made plain. The Chicago fire had wrecked more than fifty of the joint-stock companies, but San Francisco's catastrophe, with a loss "amounting to a sum as large as the aggregate of all the great conflagrations in the United States for the last fifty years," caused the suspension of only twenty, and a number of these afterward resumed. Nearly all of the companies made haste to pay their claims. The magnitude of this undertaking appears from the fact that there were one hundred and fifty thousand claims, affecting two hundred and forty-three companies and involving, including foreign reinsurance, about \$220,000,000. A vast sum began to pour into San Francisco in a golden flood, and in an incredibly short time the work of reconstruction was begun. To-day the recreated city shows few traces of its disaster. Never had fire insurance been put to so severe a test, and never had it made so successful a showing.

Nevertheless, insurance capital had suffered severely. In the National Board meeting for May,

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LIBRARY OF
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1907, President Burchell made an astounding statement:

Your committee on statistics will present figures in proof of the statement that this single conflagration swept away not only *every dollar of profit*, made by the companies out of underwriting since 1860, which is as far back as the National Board tables go, *but cost them besides, \$79,708,174 for the period.*

In other words, considering underwriting by itself with no reference to income from investments, the business showed a net loss of nearly eighty million dollars during forty-seven years! Incidentally, nearly one thousand stock fire-insurance companies had failed in that period.

The country's fire-loss for 1906 totaled \$518,611,800—some \$28,000,000 in excess of the value of its entire wheat crop.

Again was it borne in upon the minds of underwriters and public alike that the omnipresent conflagration hazard is one of the greatest perils of modern civilization. Many people recalled with a shudder New York city's danger during the water-famine of fifteen years earlier. One prominent engineer who investigated New York's water supply said:

Although I had long been familiar in a general way with the conditions here . . . I had never realized until I got well along in that investigation how near you came

to the ragged edge of a fearful disaster in 1891, and very few New Yorkers realize this condition to-day. As I platted the curve of the lowering of the reservoirs in November, 1891, I found it going down from day to day, until one reservoir after another was empty, until there was only forty-eight hours' supply for the great city of New York in all its reservoirs. I went to the late chief engineer of the Croton Aqueduct and said to him, "Mr. Ftely, did you recognize this?" "Certainly," he said, "I realized it so thoroughly that I had engaged quarters for my family outside the city and was planning to move them away, out of the impending disaster on the same day that the rain happened to come."

The public did not know that. How many of the merchants and underwriters realized that at one time the gates on all the four-foot mains leading out from your Central Park reservoirs had been shut down little by little day after day, trying to choke off the pressure and thus to check the consumption of water, until those forty-eight gates were only open an inch and a half at the bottom?

If, at this critical moment, the metropolis had experienced the combination of an unmanageable blaze and a high wind, there might have resulted a disaster as far in excess of that of San Francisco as that, in turn, exceeded the Baltimore fire. Such an event almost certainly would have cost many thousands of lives, would have wrecked most of the fire-insurance companies, and would have thrown the country into a financial panic of the largest propor-

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tions. To-day the underwriters have learned the dangers of concentrated hazard; by carefully limiting the amount of risk that they will assume in any one place they protect their solvency, but many cities still live unconsciously, in daily peril, upon the brinks of volcanoes.

XII

GRAPPLING WITH THE FIRE-WASTE PROBLEM

(1907-1909)

In conclusion I can only say that it is not too much to expect that the present work of the board will as time goes on inure to the great benefit of those engaged in the fire-insurance business, and more than this, it should also prove to be of economic value to the country at large in pointing out methods, which, if followed, will check at least in some degree the great fire-waste of the country, now become such a drain upon its resources, and constituting, as students of the subject have so often pointed out, a loss which is absolutely irretrievable.

IN these words, President Burchell concluded his annual address at the May, 1907, meeting of the National Board. It was a serious moment in American commercial history. An organization in which one hundred and twelve of the country's largest financial institutions were represented by their executive officers, a body which stood for an interest so vast that but two or three in the nation might be compared with it, solemnly considered the results of its most disastrous year. Never had there been such earnest efforts toward making conflagrations impossible, and never before had fire wrought such dis-

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aster. It could hardly occasion surprise had the entire future of the business been held to lie in the balance. It was a national question. Here was a single year's destruction more than half as large as the entire national debt and here was a body upon which had fallen the chief burden of compensating for this destruction. The question of survival might well have been deemed to be at stake.

But there was no thought of non-survival in the minds of the underwriters. There was no note of despair as was heard after the Chicago and Boston fires. There was, indeed, no lack of appreciation of the magnitude of the disaster, but the general feeling seems to have been one of satisfaction that fire insurance had come triumphantly through such a test, and of increased determination to grapple with the fire-waste problem.

It may be enlightening to review the activities of this one meeting, and to contrast them with the endless discussion of "adequate and inadequate rates," of agency commissions, policy-forms, and the disciplining of local boards, that predominated in the earlier days.

First, the president discussed the calamities of the preceding year, referred briefly to the work of the various committees and presented the usual tabulated statistics of the business. The treasurer reported receipts of \$163,557.33 and expenditures of \$124,134.62, leaving a balance available for the accounts of Fire Prevention, General Account, Sub-

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urban Electrical Inspection, and Arson Fund. The Executive Committee announced the removal of headquarters from 34 Nassau Street to 135 William Street and introduced the reports of the ten standing committees which represented the real activities of the National Board.

Of these committees, that on Finance was the first; it asked for an appropriation of \$100,000, and suggested that an assessment of one-twentieth of one per cent. be levied upon more than \$196,000,000 of premium receipts. This was voted.

The Committee on Laws discussed the situation in several of the states and announced an "understanding that all state organizations of local fire-insurance agents, before advocating any measures of legislation, would report to the Committee on Legislation of the general body, which committee would keep in touch with the Committee on Laws of the National Board," thus tending to unify the general policy.

This was followed by the report of the Committee on Incendiarism and Arson, a committee whose activity throughout nearly the entire history of the board had been effective in checking the operations of a villainous profession. The item of incendiary fires had always been a large one, but the constant publication of rewards offered by this committee had probably prevented enormously larger totals. The report announced the offering of eighty-one new re-

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wards, totaling \$22,800, and making a grand total of \$1,876,750 in thirty-four years. During this time three hundred and eighty-six convictions had been secured. While this number was less than five per cent. of the total number of arson cases, it frequently had been demonstrated that the publication of a reward in any town served as an immediate check to incendiary fires in that locality.

The Committee on Statistics and Origin of Fires then presented a detailed analysis of the year's fire-statistics in two hundred and forty-one cities having a population of more than twenty thousand. *These cities alone showed a total of ninety thousand separate fires, in addition to the great conflagration in San Francisco.* Such figures would be impossible, under European methods. They were a partial measure of the "moral hazard" of American carelessness.

The committee substantiated the president's statement of the net loss of American underwriting (exclusive of interest on investments) since 1860. It showed that the total premium receipts of \$4,292,238,324, although a prodigious sum, had been offset by a total of losses, expenses and increased liabilities to the amount of \$4,371,946,498, leaving a net loss of \$79,708,174.

The Committee on Fire Prevention, whose report followed, was the result of consolidating the Committee of Twenty with the older Committee on Fire

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Departments, Fire-Patrols and Water-Supply. It represented the largest individual activity and accounted for three-fifths of the total expense of the National Board. It had thirteen field-engineers, three office-engineers, and a clerical force of three. Far from being discouraged by the terrible events of the year, it reported the inspection of forty cities and the reinspection of twenty, and asked for \$60,000 for the following year, which was readily conceded. It also announced the engagement of Wilbur E. Mal-lalieu, of the Electrical Department, as assistant to General Agent Miller. With some self-restraint, the committee forbore to mention the remarkable fulfilment of its warning in the case of San Francisco. No better justification of its work could have been conceived.

For many years, the Committee on Lighting, Heating and Patents, or whatever body had previously concerned itself with these matters, had been the National Board's special organ of adaption to the changes in hazard produced by the progress of science and invention. To quote from its report:

The work of this committee has been developed along several lines, and it may again be stated that results are attained in part through the following organizations, all working in harmony with us, for the purpose of securing uniform rules and practises, viz.:

1. The Consulting Engineers who formulate and submit to us rules relative to hazardous devices or materials.

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2. The National Fire Protective Association, from which we receive rules as to matters of a protective nature.
3. The Underwriters National Electrical Association, to which is due the credit of having developed the National Electrical Code.
4. The Underwriters' Laboratories in Chicago, where tests are made of devices and materials for all of the above-named organizations, and
5. The Electrical Inspection Department of the Board having jurisdiction in New York suburban territory.

The committee accordingly included reports of these several organizations, showing the details of wide-spread inspections and tests, the formulation of standards and rules, and the distribution of four hundred thousand copies of these rules throughout the country. The printing of one hundred thousand copies of the revised Electrical Code was deemed especially important.

Among the most interesting reports was that of the Committee on Construction of Buildings, whose work was important in the reduction of conflagration hazard. The committee emphasized the necessity for better buildings by comparing the normal American fire-loss of \$2 per capita (in 1906, the loss was \$6 per capita) with the statistics of six European countries showing a fire-loss of but thirty-three cents per capita. To this end, the committee had revised the National Board Building Code, a laborious task

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involving a book of two hundred and sixty-eight pages, had sent copies to the mayors and fire chiefs in all cities of more than five thousand population and to many others, and had sent out thousands of letters of warning and suggestion. Immediate official action was urged in every city.

The Committee on Clauses and Forms reported briefly as to a reinsurance form; the Membership Committee announced the accession of eleven companies, the withdrawal of two, and the discontinuance of eight. The meeting thereupon concluded with the reelection of the officers of the preceding year. It had been conducted in a thoroughly earnest manner, as the existing serious condition demanded, but the note of discouragement had been conspicuously lacking.

This meeting is fairly representative of the nature and scope of the National Board's later activities. The dominant purpose to reduce fire waste loomed large at this period and showed itself in many ways. One of these was the report of the National Conservation Commission, which called attention to the fact that the American fire-loss of 1907, with the addition of attendant expenses, reached 50 per cent. of the total value of new buildings for the year and was thirteen times the interest on total national debt. It pointed out that 73 per cent. increase in population in eighteen years had been attended by 134 per cent. increase in fire-loss, almost doubling the ratio, and added:

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The time is past when the public can rest in the thought that these facts concern the insurance business alone. The insurance companies, being simply distributors, can, and must, recoup themselves by adequate rates, but the damage suffered by the city, state, and nation is irretrievable.

Especially was this true with regard to the loss of life; 1,449 deaths and 5,654 injuries from this cause were reported for the year, but the actual number was believed to be at least twice as great; this was "from five to seven times greater than in Europe."

Other signs of the times were to be found in the introduction into universities and schools of courses in fire-protection engineering and fire insurance, in conventions of fire commissioners and fire chiefs, in the extension of the fire-marshal system, and in action by the National Association of Credit Men. This powerful body approached the subject in a practical spirit as is shown by the following extract from a report of its Fire Insurance Committee at the June, 1909, convention:

There is a demand also in every city that there be a body of business men who shall see to it that the recommendations made by the engineers of the National Board of Fire Underwriters for fire prevention measures . . . in the different centers shall have a respectful hearing, and, so far as practicable, shall be adopted and enforced. Too frequently an exhaustive report on conditions is treated by the municipal authorities with an indifference

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akin to contempt. The unwisdom of this attitude needs no comment here and your committee would urge that the incoming committee make a study of the (National) Board of Fire Underwriters' reports, and, with the committee of local associations, insist that the fight in each municipality be made on the basis of bettering conditions, and that, too, not solely with a view to securing lower rates, for the latter will follow the former in natural course.

The report included a resolution to this effect and it was unanimously adopted. Especially notable was the remarkable report of the U. S. Geological Survey upon the fire-losses for 1907. With official thoroughness, this body had gathered statistics from 4,694 cities, villages, and rural communities, and had discovered that the year's total of \$215,000,000 was almost equally divided between the cities and rural districts; the population being also closely balanced between the two, the per-capita loss had varied but slightly. This report repeated the often expressed and always humiliating comparison between American and European figures; it showed that the 1907 fire-tax, the direct loss plus the expense of fire departments, net insurance premiums, etc., cost the nation more than the total value of its gold, silver, copper, and petroleum production for the same year, and it was estimated that at least half of this sum could and should have been saved.

The report further emphasized the fact that poor

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construction was largely responsible for this shocking condition and contained this solemn warning and statement:

The danger of conflagration is present in every city and village of the United States, and with it the possibility of large loss of life. The most efficient fire department in the country is powerless when once a fire gets under considerable headway in a locality where bad construction prevails.

Most of these outside activities were doubtless the reflex of the efforts of the National Board. Apparently the country was waking up—in spots; obviously it was most necessary that it should.

The presidents during this interesting period had been John H. Washburn, of the Home Insurance Company (elected in 1904), George W. Burchell, of the Queen (elected in 1906), and J. Montgomery Hare, of the Norwich Union (elected in 1908). The death-list for the same years had been heavy, including six former presidents, the first secretary, Charles B. Whiting, and the first general agent, Thomas H. Montgomery. In particular, the National Board felt bereavement in the death, on January 6, 1910, of General Agent Henry K. Miller, who had been in its employ for thirty-nine years, of which thirty-seven were consecutive. It was freely acknowledged that much of the Board's success had been due to his faithfulness and ability. His was the guiding hand that had brought it through many

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crises, and the mind that had shaped its policies. The vacancy was filled by the promotion, on January 27, 1910, of Wilbur E. Mallalieu, the assistant general agent.

XIII

AN ERA OF LEGISLATIVE INVESTIGATION

(1909-1915)

— **W**HEN President Damon, in May, 1911, called to order the forty-fifth annual meeting of the National Board, he announced the beginning of a new period, the full subsequent extent of which could not then be appreciated, by saying: "There has been no other year in the history of fire insurance when it, as a profession, has been so subjected to the scrutiny of those who sought to criticize and condemn its operations."

There are few phenomena more interesting than the tendency of events to group themselves. This already has been noted in the conflagration period of 1904-08; the tendency manifested itself anew in the era of legislative investigations, 1909-15, when the states of Illinois, New York, Pennsylvania, Missouri, Wisconsin, North Carolina, Kentucky, Ohio and New Jersey undertook separate probes into fire-insurance operations.

The average legislator is an investigation "fan"; if he is fortunate enough to sit on a committee for this purpose, he can experience the sensations of a big-game hunter, while escaping the hardships of the

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chase. The years 1909-15 were an open season for the pursuit of fire insurance companies. To appreciate the analogy, it must be remembered that the committees purposely "went gunning"; their investigations were undertaken from an impulse born of unconcealed hostility. In spite of this, most of the inquisitors proved to be men of reasonably open minds. Expecting to convict, they were none the less open to conviction.

The general subject of the relations of fire insurance to the governments of the various states will be considered more fully in a later chapter. This had been a matter of constant concern and discussion from the earliest days of the National Board. In 1865, the year before the board was organized, a convention had been held for the express purpose of seeking to bring about permanent Federal legislation in order that the companies might not be harassed by the constant diversities of unstable state laws. As already has been stated, these efforts came to nothing, although the attempt was many times renewed.

Meanwhile, the legislatures of all the states constituted three or four dozen legislative mills, tirelessly fed with bills by legions of millers whose ranks were continually renewed. Fire insurance came in for unremitting attention; indeed, it seemed, at times, to the apprehensive underwriters that many states were considering little else. The facts that the business was really a profession of infinite complication, and that few among the thousands of legislators



ALONZO W. DAMON

Springfield Fire and Marine Insurance Company, of Springfield. President, 1910 to 1911.



GEORGE W. BABB

Northern Assurance Company, of London. President, 1911 to 1913.



WILLIAM N. KREMER

German American Insurance Company, of New York. President, 1913 to 1915.



ELLIS G. RICHARDS

North British and Mercantile Insurance Company, of London and Edinburgh. President, 1915 to 1916.



CHARLES B. WHITING
Secretary, 1867 to 1869.



THOMAS H. MONTGOMERY
General Agent, 1872 to 1878.



HENRY K. MILLER
Secretary of the Executive Committee,
1873 to 1910. General Agent, 1899 to
1910.



WILBUR E. MALLALIEU
Electrical Bureau, 1900 to 1906. Asst.
to Gen. Agent, 1906 to 1909. Asst. Gen.
Agent, 1909 to 1910. Gen. Agent, 1910
to 1913. General Manager, 1913.

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possessed more than a layman's knowledge, did not lessen the light-hearted zeal with which they undertook to solve its problems out of hand. A high point of interference (although since exceeded) was reached in 1912, when, in the words of President Babb:

Forty-one states had sessions of their legislatures . . . and more measures for the regulation of the fire-insurance business were introduced than in any previous year. *The number of such bills introduced is said to be about fifteen hundred.* It would seem that all conceivable measures of a hostile and pernicious character were among the number, and, unfortunately, some of them were enacted. There are several fatuous ideas which some legislators appear to harbor. One is that fire-insurance companies can be compelled by law to do business at a loss. . . . Another is that the usual contract conditions in general use for generations can be eliminated without increasing the fire-loss and without increasing the cost of insurance to the great majority who do not have fires. . . . A third fatuous idea is that taxes in various forms can be piled on progressively without eventually affecting the rate of premium.

It was indeed a period of general atmospheric disturbance; every underwriter kept one eye on his cyclone-cellar. As already stated, the state investigations had not been conceived or conducted in a friendly spirit; they were evidences of "low barometer." All of which constitutes a mixture of meta-

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phors fairly descriptive of the confused state of mind among insurance men.

Illinois was first in the field. Its legislative investigators held fifteen sessions, beginning on April 26, 1909, and examined eighty witnesses. Their conclusions were embodied in a lucidly written report which reviewed the general insurance situation, weighed the evidence with care, and reached conclusions very different from those which appear to have been desired by the more radical legislators. This may be inferred from the action of the legislature in ordering a second investigation two years later.

In the first report, the Illinois Fire Insurance Commission makes some interesting points. It recognizes that

The business of fire insurance is of such commercial importance that it ranks with banking, railway, express, and telegraph service, and public interests demand that any legislation proposed should preserve the institution and increase its usefulness rather than impair its capacity for efficient public service.

In another place the report observes:

It has come to be generally conceded that fire-indemnity is not merchandise to be bought and sold in the open market, as flour or lumber, subject to the exigencies of trade and competition, but a public service, and as such subject

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to proper regulation, and at the same time that it is entitled to reasonable protection.

Regulation without protection would be such tyranny as would be abhorrent to an enlightened people. . . .

Fire insurance . . . is one of the important economic factors in our civilization, and as such should be treated in a broad way and its relation to the state broadly defined.

After a careful examination of premiums, losses, and expenses the Commission states:

We are unable to find any (ten-year) period where the aggregate net profits have exceeded about three per cent., while, as will later be shown, during the past ten years in the United States, instead of being a net profit, there has been a net loss on the aggregate sales of fire-indemnity.

As to the second source of revenue—interest on assets:

This would yield the companies, as interest upon the unearned premium reserve, say, two per cent. annually, which added to the three-per-cent. profits from the sale of indemnity during the most profitable decades in the history of the business, would leave a net profit to all companies upon all business of not over five per cent.

This estimate does not include the large number of companies that have been forced out of business by city conflagrations or other causes, nor the companies still in existence that have had their assets depleted or destroyed

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by conflagrations and have made the impairment good by contributions from stockholders or by sales of new stock. A number of the most prominent stock fire companies now doing business in this country have been saved from destruction in this way, and so far as the fire companies of this state are concerned, the Chicago fire wiped every Illinois company out of existence, while the San Francisco fire ruined three of the largest Illinois companies. Two of these companies passed out of existence, while one is able to continue in business because its stockholders heroically restored its entire assets out of their own pockets.

It is facts such as these that cause fire underwriters of the longest experience to contend that, taking the country as a whole, no profit has been made from the sale of fire-indemnity during the past fifty years or since statistics have been kept.

The report notes that "while the stockholder may not expect an average return of over five per cent. for the chances he takes, the losses for a single year of exceptional conflagration will wipe out his profits for a great number of years"; and adds:

The public mind does not seem to grasp the idea that stock insurance is its only protection against great conflagrations or that, under the principle of mutuality which is fundamental in this form of insurance, the losses resulting from these conflagrations must in some way be met by policy holders generally, through a rate advance. . . .

With these facts before you, it is for your legislative

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wisdom to decide in what spirit you will deal with the fire-insurance business—whether you will treat it as a parasitic form of gambling activity that preys upon the community, or as an indispensable form of service to the body politic, a service which through its cash guarantees, purveys safety and confidence to commerce, manufacturing, transportation, banking, and property interests generally, in the face of conflagrations unparalleled in the world's history.

Your commission does not hesitate to state its conviction that the latter is the only true point of view. *Stock* fire insurance is an indisputable necessity to the public. Other forms of insurance are by their nature limited in their scope of utility and of comparatively little value in affording protection in times of disaster. They serve but a small portion of the community and protect but a small part of our property values, and as an economic necessity could be dispensed with without appreciable hardships to the public, while stock fire insurance cannot be so dispensed with until the time comes, if ever, when some better form of transacting the business shall have been devised.

Upon the important subject of taxation the report says,

This state taxation on gross sales is as much as the aggregate net profits of all companies from the sales of fire-indemnity and seems to indicate that stock fire insurance is transacted as a sort of silent partnership (limited) with the state, in which the state's half of the profits has more

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than the certainty of dividends on cumulative preferred stock in a corporation, for the State secures its preferred dividend regardless of whether the business has made or lost during the year.

And again,

This (taxation) is an element of expense which seems to be indefensible from any view-point and which is entirely under the control of the State.

The above—but the merest glimpse at the report—is an indication of its general tone; the recommendations for legislation were in conformity with the conclusions. Obviously this was not big-game hunting of the hoped-for kind and it is little wonder that the more reckless sportsmen among the legislators felt disappointed.

New York's investigation began in November, 1910, and lasted for six weeks. It was even more exhaustive than that of Illinois, and it made a painstaking examination of one hundred and seventeen witnesses representing every phase of the business. An able document of one hundred and sixty-four pages presented its findings. These, as in the other report, were largely of an economic nature. At the outset the immense importance of the subject is assumed by defining fire insurance as the agency for distributing the nation's \$250,000,000 annual fire-loss over the whole community, "so that it shall not deal a crushing blow to those who have suffered,"

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and it also views fire-insurance as "the foundation of the modern credit system."

The New York report analyzes and condemns "Anti-Compact" and "Valued Policy" legislation, calling the former a "failure" and the latter a "species of insurance heresy"; it recommends the use of the Co-Insurance Clause as "a valuable basis for equitable rating," criticizes the size of agency commissions, finds that "the companies on the whole have not made an excessive profit," and believes that "if companies are allowed to combine, then it must be only on the assurance that the rates will be equitable." It considers the taxation by the state to be excessive; "no reason has been discovered in this inquiry why the burden of government should fall more heavily on this business than on other forms of corporate activity beyond the fact of the ease of collection of the tax." "Apparently the tax comes out of the profits of the business," it continues; "in reality it comes out of the pockets of the policy-holders."

The panacea of state regulation in the matter of rates did not appeal to the committee; the report urges "grave objections" against it and thinks that it "should be invoked only as a last resort." Then follows this interesting statement:

COMPLAINTS BY THE INSURED

When one begins to search for the state of affairs in fire insurance which would warrant this extreme measure (state regulation), he is surprised to find that it does not

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seem to exist. This committee, when it began its work, sent out over six hundred letters to all the commercial organizations in this state, inviting complaints on the subject of fire insurance. It was furthermore requested that the letter be published in local papers, and, as a matter of fact, it was given a large additional circulation in trade papers; it was sent out by the Bar Association of New York City to each of its members, and it was given special notice in the publications of the National Association of Credit Men, who had already interested themselves in the subject of fire insurance. There were not over a dozen complaints which were received in reply. Some other complaints were received during the progress of the investigation.

Altogether, about thirty persons appeared before the committee to make formal complaints, and nobody who desired to make complaints before the committee was refused permission.

Most of the complaints were either with regard to arbitrary increase in rates or from brokers who had been refused certificates by the Exchange. . . . In most of the cases the increase in rate was found to mark the transition from a period of loose rating to one of exact schedule rating, and the reasons given for the great advance were that the old rate was grossly inadequate. Most of the complaints in suburban territory were with regard to the increase in rates that had been made when the Suburban Exchange was founded. Evidence was brought forward by the companies to show that they had been losing money in the suburban territory before the formation of the ex-

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change and that the rates established were no higher than on other risks in other parts of the country.

In the absence of any exact figures, the committee was not able to judge whether or not the final rates were just, but the rates on these risks were not shown to be discriminatory.

Over against these complaints there was considerable testimony, particularly on the part of large insurers, that their rating in this state was being done in an acceptable manner, and a very great appreciation of the economic value of schedule rating. In fact, a petition was received by the committee, signed by forty-five leading buyers of insurance, commending the principle of schedule rating and opposing unbridled competition.

Of the National Board the report observed,

It can be said that the work of the National Board is in the highest degree public-spirited and its activities are to be highly commended.

And the history of fire insurance was summed up in a searching comment:

The old type of underwriter is passing. He did not believe in preventing fires; fires were what made business for the underwriters; it was the function of insurance simply to distribute the fire-loss and if people preferred to burn their property, it was not his business to interfere; it was his business to see that plenty of premiums were collected to pay the losses,—it was not important who paid

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them, so long as they came in; incidentally, however, he had a shrewd eye for the business in which there was a good profit and let his less keen brother take the rest.

That type has nearly gone. The new underwriter has his face turned in quite another direction. His motto is: *"Equitable rates and fire prevention and a steady profit, all through combination."*

The Pennsylvania commission's report of 1915 is similar in general character to those of Illinois and New York. It examined "a hundred or more witnesses" and reached conclusions not dissimilar to those already quoted. Its nature may be known by two extracts. The first refers to the much agitated question of "state insurance,"

Thus, after briefly considering the state fire-insurance problem, we believe that the people of this state will heartily coincide with us in disapproving the proposition as utterly impractical at this time and, in all probability in a community such as Pennsylvania, for all time to come.

The second extract refers to rating bureaus and concludes the report,

In conclusion, your commission finds from the testimony adduced before it . . . that such combinations of insurance companies, or their representatives or agents, are in accordance with a wise public policy, are necessary to the solvency of the insurance companies and are beneficial to the public . . .

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Wisconsin, the home of the "Valued Policy," might reasonably be looked to for more radical expression, and it fulfilled expectations. True, it prepared for the abandonment of the "Valued Policy," by pronouncing it "absolutely vicious" in principle, but the investigators now proclaimed the discovery of "Compulsory State Insurance." "That these ends are highly desirable," they stated, "there can be no question." Such a trifling detail as the assumption by a single state of the burden, if a great conflagration should occur within its borders, seems to have been viewed by the committee as negligible, since they omitted to take it into consideration. However, they conceded that the Great Reform "must come about gradually." In the mean time—

The day of unrestricted competition is certainly past. A recognition of the benefits of proper cooperation is becoming general. Insurance companies will soon be and are even now being called upon to demonstrate that they are the most efficient agencies for performing the work of collecting the premiums and paying the fire-losses. In common fairness, as well as in the public interest, they should be permitted to demonstrate what they can do under the fullest freedom to properly cooperate.

The 1915 message of Governor Phillip to the Wisconsin legislature throws an interesting side-light upon the subject of state insurance. It has been the policy of Wisconsin, since 1903, to assume the fire risk on its own buildings. The insurance carried on

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state property by the state amounts to \$17,670,000 and there is also provision for insuring the property of cities, counties, villages, and school districts in the state. The Governor notes that the surplus in the insurance fund amounted to \$12,306.06 but that the Board of Regents of the normal schools was suing for \$106,800, in settlement of a loss caused by the burning of the State Normal School at Superior. "It is evident," says the Governor, "that if the Courts order the payment of this amount the insurance fund will show a deficit, which means that the premiums attributed to the insurance account in the past ten years have not accumulated a fund that protects the state against loss either by fire or tornado. . . . The present condition of this fund after an experience of ten years demonstrates conclusively that state insurance on the basis on which it has been carried on is a failure. . . . I therefore recommend that the present system of state fire insurance be discontinued, and more reliable insurance be substituted therefor."

Missouri, with its traditional fondness for being "shown," was naturally to be found among the investigating states; incidentally it learned some things about its own fire-waste; for example:

In some few instances rates were satisfactory to the communities, but generally there was persistent as well as insistent demand that rates were too high and should be lowered. This demand for the immediate lowering

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of rates in the aggregate invariably was modified when the chairman requested a member of the commission to read the actual figures, in dollars, of the amount that was each year lost by fire consumption in the state. It is not too strong to say that when the sum-total for the entire state was laid before the audience, the enormous amount seemed to astound the audience and as it was borne into the minds of those attending the meetings that the greater portion of this loss, which they were paying for by their high rates, was due to carelessness and culpable negligence—demand for action on the part of the state which would at least tend to correct such a situation was pronounced and insistent.

Again it was stated:

The fire-waste in Missouri amounts to about twice the entire cost of the state government, including the expense of every department and the maintenance of its educational, eleemosynary, legal, penal, and other institutions. We were required to work long hours to pay for our country's fire-waste and destruction, and its saddest feature is that observation and statistics disclose that at least one-half of this loss is pure and preventable waste and could be avoided if the means at the command of the state were invoked and proper individual and communal precaution were exercised.

The commission gave considerable attention to the subject of rate-making bodies, and said,

While skeptical in the beginning, our investigations
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have convinced us that the economic forces supporting this practise cannot be restrained and that in the making, or rather estimating rates, joint and cooperative action must be recognized in such cases as the companies see fit to adopt it, subject, of course, to proper limitations and official supervision.

The Missouri commission's recommendations were somewhat more radical than its findings and included an elaborate system of rate-control, subject to the experience of the companies on a five-year basis, at the option of the state superintendent of insurance.

In 1911, Illinois sent a second expedition into the "big-game" region, and a bill creating the office of state rate-supervisor was the result; it, however, failed of enactment into law. North Carolina and Kentucky, as well, traversed the familiar field. Both of them recommended the control of rates by the state. Kentucky laid special emphasis upon the necessity for more adequate fire-prevention measures, and commended the "most effective work" of the National Board of Fire Underwriters, "without which the loss record would no doubt have been prohibitive." Both states pronounced against "Valued Policy" legislation. The commissions of Ohio and New Jersey did not report.

In all, it had been a busy season, and the publicity value had been great. Certain facts seemed no longer open to dispute. It had been generally admitted that the business of fire insurance was funda-

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mental to the continuance of prosperity and the maintenance of credit, that it was semipublic in its character and national in its scope, that any serious interference with its operation would react harmfully upon the general public, that the average premium-rate was not excessive, that the companies were making comparatively small profits, that cooperation among them was to the interest of the public, that there was no indication of corruption or other abuses, and that the companies were rendering public service in the matter of fire prevention. In particular, the National Board had been singled out by several of the states for special praise. There was no longer a cloak of mystery about the business of fire insurance.

In the mean time the organic life of the board had been progressing steadily along the various lines indicated in Chapter XII. The members were keenly interested in the several legislative investigations, but the large activities of the standing committees were not neglected.

In 1910, Alonzo W. Damon, of the Springfield Fire & Marine Insurance Company, was elected to the presidency; he was succeeded, in 1911, by George W. Babb, of the Northern Assurance (London), who held office for two years. In 1913, William N. Kremer, of the German-American, advanced to the highest office from that of vice-president, and in 1915, the honor fell upon Ellis G. Richards, of the North British and Mercantile.

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Among the important events of the period had been the establishment of an Actuarial Bureau as the result of a letter from Mr. Richards. Of this, more will appear in the next chapter.

XIV

PRESENT PHASES OF THE WORK

TIMES change. In 1880, one of the daily papers expressed its opinion on the duties of underwriters as follows:

Prevention should be a part of their business, and, in fact, is a part of their practise, for the examination and surveys they make and the conditions they insist upon . . . are ordered entirely in view of the prevention of fires.

To this, an insurance journal made indignant response, and expounded the doctrine of the day in these words:

The object of the underwriter is to insure against a danger which *exists*, and not against one which is *prevented*.

If a danger is averted or prevented, there is no occasion for the underwriter at all.

Thirty-one years later, the president of the National Board stated unequivocally,

We are now recognized as *an institution whose work is almost entirely of an educational, engineering and public-service character*, exerting an influence toward uniformity and better practises in the business.

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He said this publicly before the leading underwriters of the United States and no one dissented. The experience of the twentieth century had brought more wisdom than the theory of the nineteenth.

Fifty years of eventful history have wrought great changes in the organization which opened a tiny office with two employees in the year following the close of the Civil War. To-day the National Board occupies two large floors at 76 William Street, in New York City, and carries eighty-one names upon its immediate pay-roll. It is a leading factor in such organizations as the Underwriters' Laboratories, the National Fire Protection Association, and the Insurance Library Association of Boston. In place of the old rate-making machine, there now exists a vast and complicated mechanism whose work, unknown to millions, is really one of the strongest constructive forces of American civilization. We have seen this machine in the building and yet may not have grasped the scope and power of its operations; it must be watched in motion.

The National Board appeals to the American love of sheer magnitude; it is a giant even among the giants of the modern business world. The gross amount of fire insurance in force in the United States is more than sixty billion dollars, and approximately 90 per cent., or fifty-four billions of this is carried by companies of the National Board. The stupendous total represents at least thirty million separate policies; directly or indirectly it concerns the life of

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almost every individual in the land; the gross premiums charged approximate \$600,000,000. The National Board is an organization in which one hundred and thirty-two of the leading companies are represented by their executive officers. These companies have total assets of \$620,000,000; their agents would form an army of several hundred thousand men, and they maintain offices in about 60,000 separate cities and towns.

- The board, however, is in no sense a corporation or a legislative body; it is strictly a service institution—to the public and to its members. This will be appreciated from a study of the machine in operation.

THE EXECUTIVE COMMITTEE

The National Board proper meets but once a year, unless some emergency arises. At this meeting, held in the month of May, it elects officers, listens to reports, and fills the three or four vacancies annually occurring in the Executive Committee; then it adjourns and the Executive Committee takes up the burden of work. For most of the year this committee is practically the board itself. It has thirty-four members, of whom eleven are elected for three-year terms, which expires successively in groups, and the remainder consists of the president, vice-president, secretary and treasurer of the board, and the chairmen of the standing committees, as ex-officio members, and the ex-presidents of the board as

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honorary members. In addition to these, two underwriters of long service to the profession, Eldridge G. Snow, President of the Home Insurance Company, and Uberto C. Crosby, formerly United States Manager of the Royal Exchange Assurance Company, have been made honorary life members of the Executive Committee. No elected member may succeed himself upon the expiration of a term; thus a democratic principle is maintained. The Executive Committee holds sessions monthly, save in July and August. It, however, is merely the framework of the machine and its big balance-wheel; the whole interesting play of the complicated mechanism is performed by the various standing committees.

THE COMMITTEES ON FINANCE AND MEMBERSHIP

Two of these committees, those on Finance and on Membership, require no explanation; their counterparts are to be found in most organizations.

THE COMMITTEE ON LAWS

None of the committees has stood out more conspicuously in the legislative era than this one. Underwriters of former days had much to say about oppressive legislation. In reality, they experienced but the first tricklings of that deluge of legislative regulation whose mighty proportions have been among the wonders of the past decade. A Committee on Legislation and Taxation had been organized to deal with the situation, and its work was



THE EXECUTIVE COMMITTEE IN SESSION

In this room important questions of general policy, affecting underwriting and fire prevention measures throughout the United States, are considered. This group contains six National Board presidents. Pictures of all the presidents hang upon the walls, and, to the right, may be seen the "original" clock, which has measured practically the full fifty years of the National Board history.



A CONFERENCE IN THE GENERAL MANAGER'S OFFICE

The vast and varied activities of the National Board throughout the United States are directed from this room. It is in daily communication with every part of the country. (Figures, from left to right.) Geo. W. Booth, Chief Engineer, Committee on Fire Prevention; J. Henry Doyle, Assistant General Counsel, Committee on Laws; Wilbur E. Mallalieu, General Manager of the National Board; Charles H. Lum, Assistant to the General Manager in charge of the Actuarial Bureau; Cornelius J. Doyle, Associate General Counsel, Committee on Laws; Ira H. Woolson, Consulting Engineer, Committee on Construction of Buildings.

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supplemented by local committees in the different states; but this arrangement was limited by the narrow outlook of the state committees. Plans to meet local situations were adapted to their immediate surroundings; thus, what might be temporarily expedient in Oregon would prove demoralizing in Florida or Maine. Such a method could not apply universally to the needs of a business as boundless as the whole country, but nothing better had been devised in the (legislatively) antediluvian days.

Then came the flood. As its waters began to rise, the outlook became desperate. Laws were proposed in some states that would have made the business of fire insurance practically impossible. The company officials composing the general committee found that its work was making burdensome demands upon their time which they, as busy men, could ill afford. They also realized that there was the need for trained lawyers and advocates, under committee supervision, to appear before the various legislative bodies.

At this juncture, the (Western) Union, an insurance organization of the Middle West, organized a joint law-office for its membership, and placed Oscar B. Ryon, formerly special attorney for the Illinois Insurance Department, in charge. This was accomplished in 1912.

Meanwhile, the National Board, having been impressed with the necessity of similar work throughout the country, decided that it would be unwise to

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have two organizations within the business for the same class of activities. Conforming to the action of the Law Committee, its chairman, Morell O. Brown, and General Manager Mallalieu conferred with the Union with a view to merging its law office into the larger work of the National Board. This, the Union was pleased to do, and the merger was consummated. For geographical convenience, the office at Chicago was continued and one has been recently established at San Francisco, the general headquarters being maintained at the New York office of the National Board. All of the offices are under the immediate direction of the Committee on Laws, its chairman and general counsel. -

Mr. Ryon and his associates are busy men. When it is considered that, beside the Federal Congress at Washington, there are forty-eight state legislatures, each having a large number of members, any one of whom has the right to drop into the legislative hopper any individual notions he may possess upon the subject of fire insurance, it will be seen that there is no chance for stagnation. Any one of these legislators may introduce some bill which, if enacted into law, might destroy underwriting activities in that state; and perhaps wipe off the slate half a billion dollars of insurance contracts upon which its people's credits are predicated, millions of dollars in premiums, and throw thousands of agents out of employment. This interesting but disquieting possibility is

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in the main latent, but sometimes it becomes of a sudden acutely menacing. There are periods during the legislative season when the air is charged with danger. *Not less than twenty-five hundred fire-insurance bills made their appearance in the legislative year ending May 27, 1915.* Fortunately, it is safe to assume that most of the inimical measures arise from ignorance or prejudice and can be defeated by a plain showing of facts.

—Those interesting measures, known in the vernacular as “strike bills” now are rarely introduced against fire insurance. The Law Committee has caused it to be widely known that under no circumstances will it bargain for the passage or defeat of legislation. But there is an ever-present danger from three sources—politics, revenge and misguided zeal. It comes from the first source in an opportunity for political capital and newspaper advertising arising from an attack upon capital by some self-styled champion of “the common people”—the fire insurance companies being the most accessible for the purpose; from the second, in a fancied grievance on the part of some legislator or constituent and results in the introduction of a measure for the purpose of “getting even.” But the misguided zealots, honest in intention but without knowledge of the special problems of underwriting, present the greatest danger. They usually are the authors of the most revolutionary plans and their pride of authorship makes them the

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most impatient of correction. It is a testimonial to the eternal vigilance of the Law Committee that so few bad bills are finally enacted into laws.

In addition to this defensive work the committee is engaged upon the construction of new laws, upon departmental rulings and in assisting to prepare the cases which occasionally arise in the various state courts.

THE COMMITTEE ON INCENDIARISM AND ARSON

The Committee on Incendiarism and Arson is engaged in defensive work of another kind. It used to be believed that fifty per cent. of the fires were of criminal origin; but such an estimate was long ago shown to be false; the percentage of incendiary fires is a small one but by no means negligible. Shocking cases of this cowardly crime are continually unearthed. Some are so ingenious in method as almost to bring incendiarism under the head of a learned profession; others are as highly organized as a business. Judge D. Ostrander, of Chicago, supplies the following instance:

Some two years ago, a request came to me from a prosecuting attorney in one of the Middle States, that I confer with him immediately concerning a gang of incendiaries that he had by some means uncovered. I found in his possession two affidavits, disclosing the names of many scoundrels, with a carefully prepared statement of their operations during the several years of their confederated

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existence. In this list of rascals were the names of several church members, one banker, one wholesale merchant, and several insurance agents. This business had been carried on in some five or six different states, and had resulted in the destruction of property to the value of several hundred thousand dollars, and the violent death of two persons, one of whom had been murdered to prevent disclosures.

Most incendiary acts have the collection of insurance as a motive, and for this reason the companies are forced always to be on their guard. The question of "moral hazard" is as much a part of the risk as that of occupancy or exposure. Insurance is never knowingly issued to a man who has a criminal record or who has had suspicious fires on premises owned by him. The National Board has had much to do with bringing about the creation of the office of fire marshal, a sort of fire coroner, in many states, and the administration of its Arson Reward Fund has brought nearly four hundred criminals to punishment. How many thousands of fires have been prevented through the publication of these rewards will never be known, but the committee believes the number to be very large.

THE COMMITTEE ON STATISTICS AND ORIGIN OF FIRES

Next in logical order is the Committee on Statistics and Origin of Fires. Whenever fire-prevention

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legislation is being urged in any state, this committee usually is on hand with sledge-hammer arguments; it has them in reserve as the result of collecting annual statistics from all cities exceeding twenty thousand population. If it can show that the eighteen cities of *one state*, for example, with no general conflagrations, still have had a year's total of nearly seventeen thousand separate fires, causing \$8,000,000 in losses and involving \$150,000,000 of values, and that these fires were largely preventable, it is difficult to escape the conclusion that something must be done in the matter of legislation. The Fire Department chiefs and superintendents of Patrol in the various cities cooperate with this committee by filling out the analytical report blanks that are sent to them each year.

In 1906, Mr. Babb, then chairman of the Committee, conceived the idea of obtaining similar data from European cities, and these were secured through the aid of the American consuls. His report startled the annual meeting and was greeted with hearty applause—an unusual thing in this dignified body. Its publication caused a sensation throughout the country. The shocking disproportion between American and foreign figures, of which more hereafter, made it plain that in this respect America was certainly backward in its civilization, and, in consequence, the work of fire prevention was stimulated in a marked degree.

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THE COMMITTEE ON FIRE PREVENTION

At this same 1906 annual meeting, the Committee on Fire Prevention was formed, as already described, (Chapter XII) by the merging of two other committees. From that time until the present day it has devoted its energies to examining, reporting on and advising as to the fire protection facilities and the structural conditions and hazards of cities, with the following purposes, as described in the Constitution of the National Board: To secure adequate water supply with improved systems of distribution; efficient organization and modern equipment of fire departments, as well as other fire protective measures; also to encourage the adoption of building codes, providing for improved and safe methods of construction. The studies made lead naturally to the subject of conflagration hazard; which is to say that its work is confined to cities. The Committee has three parties of engineers in the field, and each party contains an engineer trained in water works practises; a mechanical engineer to report on fire departments, fire alarm systems, and fire-department auxiliaries; a structural engineer to investigate physical conditions in the mercantile and manufacturing districts; and a general assistant.

There is nothing superficial about the work of these engineering parties. They move from city to city as directed from the home office, looking for conflagration hazard—and finding it. The urban

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population of the United States would have less peace of mind did it realize how steadily many cities are courting danger. A party of National Board engineers engaged in hydrant or fire-engine tests may attract the momentary attention of a few passers-by, while the bulk of the population is unaware of their presence; yet the report of these four men in their rubber boots and working-clothes may decide for safety as against disaster to the community.

Their usual method is to begin with a letter to the mayor of the city, asking permission and cooperation in the inspection. Therein, it is emphasized that the National Board does not deal with premium rates, but desires to put the facts before all who are interested, in the belief that the result will be beneficial. Such a request usually meets with prompt compliance although sometimes a short-sighted fire department will raise objections. The engineers will then rent offices and settle down for a thorough inspection, which in the case of a city of a hundred thousand population will take about four weeks, and a much longer time in larger places.

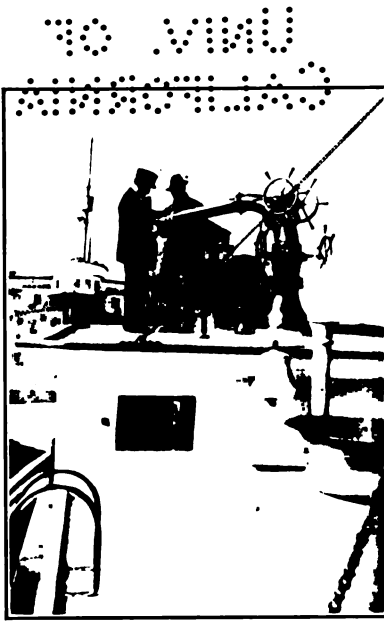
Water-supply is of the first importance; should this fail, as it did in San Francisco or prove inadequate as in Salem, Hot Springs and Jacksonville, it would be difficult to check a conflagration. Accordingly, the engineers look into every detail of the water-supply. They study its sources, the reservoirs, the flow, the pressure, the size and arrangement of the mains, the position of hydrants, the possibility



1. Will this engine be equal to an emergency? In order to answer this vital question, the engine is speeded up to full capacity and carefully inspected in action by the National Board Engineers, who observe the steam pressure, water pressure, rate of revolution, etc. 2. All the characteristics of a water tower in action are carefully noted by the inspecting engineers, who are here shown standing about the tower. Note simultaneous discharge of deck and tower pipes.



In all cities having water fronts, the fire boat is an important adjunct. Not only is it available for water-front fires, but in many instances it may be used to furnish additional streams on fires at some distance from the harbor. The National Board Engineers are here shown putting a fire boat through rigorous tests.



1. The National Board Inspector is here shown measuring the diameter of a fire boat deck turret nozzle. 2. This picture shows method of measuring a hydrant discharge. Similar measurements at other hydrants in the same group are made simultaneously with this one, in order to learn whether they safely may be called into service at the same time.



Gaging the stream from three hose lines siamesed into one nozzle. The inspector has attached a Pitot gage to the nozzle, and is here shown making a record of the pressure at fifteen-second intervals. He takes the time from a watch strapped to his arm. Members of the fire department under inspection are always interested in these tests.

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of their freezing, and every other essential matter. For example, in a fire, four or five adjacent hydrants will probably be employed. They all may be connected with the same main. Any one, by itself, may deliver sufficient volume under sufficient pressure, while several in simultaneous use will find the supply they furnish much reduced. Such a condition would mean danger at a fire. The engineers, therefore, make their hydrant-tests in groups. A pressure-gage is attached to the central hydrant and the water is turned on. The needle may indicate a satisfactory pressure of thirty pounds or more to the square inch; but if, as others are turned on in succession, the pressure should drop to twenty pounds or less it would be proof of an insufficient supply, which must be remedied. This is but one of the hydrant-tests.

Other tests are equally practical. Engines are called successively to some open spot, usually in the outskirts of the town, and there each is speeded up until the smoke clouds roll from the stack and a solid column of water from the nozzle crashes through the dripping tree-tops. Meanwhile the engineers are moving about, noting steam-pressure, gaging revolutions, or squatting by the nozzle with a Pitot gage to learn the pressure of the stream; and all of them are making constant notes on record forms. The local fire commissioner and fire chief are also likely to be present, a trifle nervous but interested, and getting valuable information and advice.

Thus, slowly and systematically, the Board en-

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gineers cover each city under inspection, recording, tabulating, and charting every point that affects that city's liability to burn up, and then, before their work may be considered complete, they must prepare comprehensive suggestions for correcting whatever is found amiss. The final report is a complete and valuable document. It is reviewed by other engineers in the New York office and then issued to National Board companies, to city officials, and to officers of trade or commercial bodies, to a few influential citizens and to the local press. Altogether some two hundred and fifty cities have been reported upon, and thirty-five or forty are added each year.

Since February, 1914, an engineer has been engaged in following up these inspections; a few months after the issue of a report, this engineer visits the city, discussing with city officials and interested citizens the more important findings in the reports, noting recent and contemplated improvements, and advocating the adoption of the recommendations, especially those considered most urgent; finally brief bulletins or supplements are prepared and sent out, giving the results obtained.

What are the results?

They are numerous and sweeping, including such items as important reforms in the New York Fire Department, modernization of the fire departments in Cincinnati, Bridgeport, Birmingham, and Savannah; securing of improvements long and unsuccessfully urged by fire chiefs and others in the depart-

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ments of Springfield (Massachusetts), Shreveport, Freeport, Atlanta, Augusta, Tampa, Phoenix, Oakland, Portland (Oregon), Minneapolis, Berkeley, and Stockton; erection of fire-alarm headquarters in various important cities; securing improved water-supply at many points; defining and laying out congested-value districts in different cities; improving fire inspection, and drill methods in many fire departments; drafting and introducing methods for rating and testing fire-engines, automobile fire-apparatus, and fire-boats, now in use by many cities, and urging better building laws. The value of these efforts is thoroughly appreciated in official circles. This is shown by the fact that at the Convention of the International Association of Fire Engineers, the fire chiefs' organization, the official tests are now made by the National Board engineers.

When the Panama-Pacific Exposition was in process of construction, the authorities secured a National Board engineer to design and supervise the fire-protection system, and another engineer was recently loaned by the Fire Prevention Committee to the city of Boston to design and install a high-pressure water-system.

In 1913, at the request of the Federal government, engineers of the National Board inspected and reported on a number of the government buildings in Washington. A considerable number of city governments send for National Board engineers to conduct tests when engines are to be purchased; and the

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New York City Municipal Civil Service Commissioners have had National Board engineers prepare papers and examine for promotion to every grade in the Fire Department, as well as conduct practical tests for the examination of engineers. A reputation that would bring out such demands could not have been established without entire confidence in the thoroughness and impartiality of the Board engineers. Incidentally, these important forms of public service are conducted at National Board expense.

There is an interesting reverse side to all this. Many large fires would not have occurred had the recommendations of the engineers been acted upon. Some of their reports seem like almost uncanny predictions in the light of later events. A report on Minneapolis called attention to a particular block in these words:

Stocks are heavy and combustibility high; this, with the bad structural weaknesses, makes a high-potential hazard, which is materially reduced by sprinkler protection in two-thirds of the block. However, the department store at the southwest corner, which is not sprinklered, would make a very fast fire and . . . could set up conflagration conditions. A fire is not apt to spread across the street south, as the exposed building is sprinklered and has a water curtain.

On March 5, 1911, the very store building here mentioned was burned and damaged the western half-block to the extent of about \$1,100,000. The sprin-

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klers, shutters and water curtains saved the exposed buildings exactly as it was foretold they would do.

The report on Salem, Massachusetts, stated :

Conclusions—The features most prominent in creating a severe conflagration hazard in Salem are the large amount of frame construction in and surrounding high value districts, lack of protection to exposed openings, generally narrow streets, a weak fire department and an unreliable water-distribution system.

Every one knows what happened on June 25, 1914; the combination of frame construction, a weak fire department, a serious reduction in the water pressure and a little wind were responsible for a fire-loss of \$13,000,000. On February 16, 1916, Fall River, Massachusetts, witnessed the burning of two "bad" blocks of which warning had been given in the National Board report of September, 1915. Such instances could be supplemented by many others; they point the moral as to what too frequently occurs where a complacent or indifferent community neglects the specific recommendations that the National Board engineers always leave behind them after inspection. The most striking case of fulfilled prophecy is, of course, that of San Francisco, which, at the time of inspection, was found to have "violated all underwriting traditions by not burning up." A story, never before published, shows that the underwriters themselves occasionally fail to heed the lessons of the inspections.

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When the news of the San Francisco fire was flashed across the continent, a National Board engineer who was in a city which is the headquarters of a prominent fire-insurance company, was asked by the president of this company to bring over a copy of the San Francisco report, his own copies having been mislaid. The president read the report until he came to the warning referred to; then looked up solemnly.

"Mr. —," he said, "if we had heeded that warning and had reduced our San Francisco line of insurance as we should have done, it would have saved this company a vast sum. Yesterday, we had a large surplus; to-day we may be insolvent. I cannot tell until I know how much we have lost."

In the records of the Committee on Fire Prevention is a resolution that was unanimously adopted by three hundred and fifty fire-chiefs in their 1913 convention; it reads:

Whereas: The International Association of Fire Engineers believe sincerely in approving the work of conservation by every agency looking to the reduction of the enormous fire waste, and,

Whereas: The intelligent and highly efficient work of conservation through advisory engineering, the advocating of model ordinances governing the storage of inflammable oils, the advantages to be gained to the properties of our people by better building construction, the publishing of statistical tables of fires and the educational

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efforts of the National Board of Fire Underwriters is an agency distinctly conspicuous in this field of splendid endeavor. Therefore, be it

Resolved: That the International Association of Fire Engineers approves the work of the National Board of Fire Underwriters and especially commends the work of its engineers in the testing of fire-apparatus and the inspection of fire-departments, fire-alarms, water-supplies and structural conditions of our cities and would encourage said National Board of Fire Underwriters to continue and extend its activities in this direction.

THE COMMITTEE ON CONSTRUCTION OF BUILDINGS

The above resolution makes several references to the work of another of the board's committees, that on Construction of Buildings, whose work is less picturesque but not less important than that just described. This committee has been in existence for many years. It would be glad to see all the buildings of the United States reconstructed along fire-proof lines, but as this is too large an ambition for even a highly competent committee to attain, it directs its energies to an attempt at improving the standard of new construction. This is largely a question of securing good building-laws in the different cities and states.

The committee early recognized that successful criticism should be constructive; it was not sufficient to condemn bad laws without showing how to frame good laws. Hence it prepared a Model Building

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Code in 1905. This was sent gratis to officials in all cities having a population of five thousand or over, and to insurance organizations, insurance commissioners, state fire marshals, architects, building contractors, technical schools, and others. This code became a standard; it passed through three editions and had great effect upon American building-laws. In 1915, it was thoroughly revised according to the best modern practise, and recently a suggested building-ordinance for small towns and villages has been issued. One of the most noteworthy of the committee's later efforts has been the publication of a pamphlet giving simple and inexpensive methods for safeguarding dwellings from fire. This is important since most dwellings are outside of the operation of municipal building-ordinances, and but two or three state governments yet exercise any authority over such construction.

To-day the Committee on Construction of Buildings is a clearing-house for information upon fire-resistive building construction and similar technical subjects. It keeps in touch with city and state commissions that are preparing building laws and makes helpful suggestions from the standpoint of its wide knowledge of the subject. Something like 90 per cent. of these suggestions, upon the average, are accepted. Thus, the committee, operating without expense to the public, is another of the silent unseen influences that are contributing to public safety.

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THE COMMITTEE ON LIGHTING, HEATING, AND ENGINEERING STANDARDS

Several committees may be passed over without extended notice. That on Lighting, Heating and Engineering Standards is the intermediary between the Executive Committee and the Underwriters' Laboratories; its chairman, by virtue of his office, is a director of the Laboratories. The committee has much to do with determining the adoption and printing of standards and suggesting regulations for the installation of hazardous and protective devices by the National Board.

THE COMMITTEE ON CLAUSES AND FORMS

The Committee on Clauses and Forms prepares the suggested clauses and forms that are attached to the policies, covering all sorts of subjects. These suggestions are merely recommendations, and are never mandatory on the local underwriting organizations to which they are referred.

THE COMMITTEE ON ADJUSTMENTS

The Committee on Adjustments is prepared to handle adjustments of losses whenever there is a fire of conflagration proportion. At such times, public welfare requires that the immense problem of adjusting the settlement of hundreds or thousands of claims be handled with all possible despatch. The ordinary methods in individual fires would be swamped by

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such an emergency, but the committee has an adjustment cabinet and trained assistants ready to start at a moment for any stricken city. It was used at Salem, Massachusetts; Augusta, Georgia; and Paris, Texas; with good results.

THE ACTUARIAL BUREAU COMMITTEE

Now comes the newest development of National Board activity, its Actuarial Bureau, which might well be termed the Bureau of Vital Statistics of American fire insurance. This is the biggest thing in modern underwriting on its more technical side, and is nothing less than an effort to collect, classify, tabulate, and *interpret* the entire experience of fire-insurance companies upon their American business. That experience consists, primarily, of the insurance, or *writings*, as represented by the many millions of policies issued each year by the companies belonging to the bureau, and the *losses* which these companies sustain under these policies. The purpose is to establish the burning ratio, or fire cost, in every class of property. The magnitude of such a task is hard to realize. As yet the companies are reporting only their losses to the bureau (the reporting of writings commencing probably with the coming year), but even at this stage of development the work completely engages the time of about forty employees and the capacity of much labor-saving machinery. The favored visitors to the rooms of the bureau find much to interest them. It appeals to the imagination. Here is the statistical center for millions of



THE MAIN ROOM OF THE ACTUARIAL BUREAU

Two cards for *practically every fire loss in the United States* are typed and filed in this room. One card is filed by name of assured regardless of location, the other is filed by location—state, town and street. Over a million and a half of 3 x 5 inch cards are contained in the banks of files shown in the left of the picture. Eleven typists are engaged in this work and are shown to the right of the picture. Filers occupy the tables in the center of the room. Typists vary from four hundred to six hundred cards per day in production.



CARD-PERFORATING ROOM OF THE ACTUARIAL BUREAU

Here the information as to location and amount of loss is coded and transferred to cards by means of perforations. Two kinds of perforating machines are shown, both producing the same results, although radically different in form. One operator can punch fifteen to seventeen hundred cards per day.



THE TABULATOR ROOM OF THE ACTUARIAL BUREAU

Without the wonderful machines in this room, it would not be practicable to conduct the work of the bureau. In the center, at the rear, is the sorting machine in which cards are sorted at the rate of 268 per minute. To the left, is a tabulator printer which adds money values on cards at the rate of 58 per minute, printing totals at designated points and automatically starting on the next run. The files contain approximately 750,000 tabulator cards.

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separate transactions, involving inconceivable totals and affecting the welfare of pretty nearly every property owner in the United States. It acts upon an enormous tangle of facts and figures, reduces them to order, and then searches for the fundamental laws which have produced them; and its work is never finished, since each day brings a fresh instalment. The bureau has about it something of the breathless haste of a daily paper's editorial rooms.

Its first room is called, in fact, "the editors' room." Here are received a daily average of two thousand reports sent by the different companies and giving detailed particulars of perhaps fifteen hundred new fires. These reports are "edited"—examined for errors that the trained eye quickly catches—by a force of six editors, and then either sent back to the companies for correction or forwarded to another department. The various processes by which they are classified, copied, recorded, and filed under claimant's names, as well as by geographical location, are too complicated to detail. The most modern methods of differentiated colors and key-numbers are employed. For example, one of the departments receives twelve thousand white cards and prepares twenty-four thousand pink and green cards per week, in addition to about twenty-six hundred of what are known as fire-marshal cards to comply with the requirements of certain states. By the spring of 1916, the files contained some two and one-quarter million cards and were growing rapidly.

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What value have these cards? For one thing, they constitute such a check on fraud as has never existed before. In one recent case, for instance, a man carried policies in two companies, telling each that it was the sole insurer. This statement was part of the information on the loss-cards that came from the two companies when the man had a fire and put in his claim. Neither company knew of the other's interest and the man would have received twice the amount of his loss had it not been for the methods of the Actuarial Bureau, where both claims were recorded and compared under the same name and address. As a result, a criminal attempt was thwarted. In another case, a man had three fires in two months; in the first month, his insurance was with one set of companies, and, in the second, with a different set. All of these companies reported to the bureau where the lines crossed and the fraud was at once detected. These are characteristic cases for this form of criminality which is extensively tried. The bureau will make it more difficult of successful accomplishment, and, in this way alone, should make the large expense of its maintenance pay for itself.

This is, of course, directly in the interest of the public as well as of the insurance companies, for the successful incendiary merely picks the pockets of the honest policy holders. The Actuarial Bureau's work, in this respect, might well come under the heading of fire prevention work on its moral side, for as the records accumulate with time, they should

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constitute a practically complete register of fire-claim swindlers.

But even this important service is secondary to the larger task of interpreting insurance experience, through collecting, classifying, and tabulating its statistics. In this way, it is expected that, in time, fairly accurate tables of loss-costs may be obtained upon all classes of risks, and these will be available as a basis for greater accuracy in rating. To this end, the bureau makes use of the marvelous tabulating and calculating machinery which have been so often described but which never cease to cause wonder. Machinery for transcribing the detailed information from a card into a series of perforations in parallel columns, machinery for checking the accuracy of these records by flashing red lights when any error is made, machinery for separating hundreds of cards in a few seconds into any desired classification, machinery for absorbing long columns of figures and setting down totals with unfailing accuracy—all of these are busily employed, with steady click and rattle, like superhuman mathematical monsters with untiring mechanical brains, doing work which would otherwise require a small regiment of accountants. It is largely by means of this mechanical assistance that it is becoming possible to publish analytical reports for each state as well as for the country at large.

As already set forth, this large activity is a new development. In December, 1913, Mr. Richards,

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then vice-president, called the attention of the Executive Committee to the apparent purpose of some of the state insurance departments to demand of the companies classified data of their state experience in premiums and losses, to obviate which the companies should themselves undertake the work for the broader field of the United States; thus obtaining every possible advantage from such statistical data, which would constitute a basis for more accurate schedule rating than had heretofore been possible. At the following annual meeting an "Actuarial Committee" was constituted, and, in September, the State Fire Marshals' Association and the National Convention of Insurance Commissioners passed resolutions in which they strongly commended the project, and pledged their support.

Accordingly, on October 29, 1914, at a special meeting called for the purpose and largely attended, the National Board voted to establish the Actuarial Bureau, in charge of a standing committee to be known as the Actuarial Bureau Committee, and to begin the tabulation of losses from January 1, 1915.

It was recognized from the start that the proposed work would have a value beyond the actual membership of the board itself, and provision was made for inviting companies outside of board membership to join the Actuarial Bureau. More than one hundred such companies, both stock and mutual, have availed themselves of this privilege; the total membership



ABOUT TO START FOR A GREAT CONFLAGRATION

This picture was taken on March 23, 1916, under remarkable conditions. For the first time in the history of underwriting, three great conflagrations occurred on the same day; one in Paris, Texas (loss \$14,000,000), one in Augusta, Georgia (loss \$8,000,000), and one in Nashville, Tennessee (loss \$1,500,000). In the National Board store room stood two emergency adjustment cabinets. Just before this picture was taken, one of the cabinets started for Paris, and, within half an hour, the one here shown left for Augusta, where it made possible a saving of at least ten days in the adjustment of approximately 2000 claims.



THE GENERAL OFFICE AND SOME MEMBERS OF THE GENERAL MANAGER'S STAFF



A CORNER OF THE QUARTERS OF THE COMMITTEE ON FIRE PREVENTION

In the center are some of the engineers engaged in studying the reports and maps sent in by the field parties, and on the right is the draftsman preparing a map for reproduction in one of the city reports.

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of the bureau amounts to two hundred and thirty-six companies.

THE GENERAL MANAGER

With two additions the foregoing are the principal lines of activity that occupy the attention of the National Board. They would seem to contradict the fears of some of the underwriters in the '70's and '80's that nothing could be found for the board to do if control of rates and commissions were removed from its jurisdiction, for few busier organizations are to be found the country over. At the head of all these complex activities sits the general manager, Wilbur E. Mallalieu, who, with his immediate staff, is responsible for the conduct of every department. In the last analysis the success or failure of the board's activities is largely a personal matter with the general manager. The various company executives who compose the National Board are busy men in their own organizations, and can give but a limited amount of time to committee work, but emergencies cannot wait upon committee meetings; they require immediate attention. This devolves upon the general manager, as does the task of coordinating the work of the various committees and bureaus, of anticipating business needs before they arise, and of furnishing the great variety of special reports and lines of service called for by members of the National Board. He is in attendance at every meeting of every com-

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mittee. It is his duty to formulate the business for consideration and to present the necessary data. He is directly charged with the responsibility of the large force of employees, and the board's finances are under his immediate supervision.

In a single day, the general manager, in addition to the conduct of the normal business of all departments, may have to be present at one or more important committee meetings. With forty or more legislatures in session, he may be acting as intermediary between the Law Committee chairman in New York and counsel in several state capitals, shaping his activities according to numerous telegrams regarding the progress of legislation. He may be called upon by telephone or telegraph, for hurried information, and must give daily attention to important correspondence from many sources respecting the work of any one of the eleven standing committees. Mr. Mallalieu is disinclined to enlarge upon his own functions beyond saying that it is his duty to see that the board renders service; but his work, practically unknown to the general public, nevertheless is in effect that of a public office and its quiet efficiency has a value that is felt far beyond insurance circles.

Two great lines of outside work in which the National Board is largely interested, the Underwriters' Laboratories and the National Fire Protection Association, are reserved for special mention in the chapters that follow. The board is also a contributing member to the Insurance Library of Boston.

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This is the world's largest repository of underwriting records and other forms of fire-insurance literature. Under the direction of Mr. D. N. Handy, the librarian, it is rendering important service to the insurance business, and a complete set of its analytical catalog-cards is to be found at National Board headquarters.

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ON Riverside Drive, in New York City, stands a handsome Firemen's Monument, dedicated to the "Soldiers in a War that Never Ends." There seems to be an irresistible temptation for using military similes in discussing the struggle of mankind with fire destruction; it is an ancient war, antedating the dawn of human history; it is universal and unending, knowing neither peace nor truce; its consumption of life and property is terribly severe. America, priding herself upon her peaceful ideals, is, nevertheless the world's chief battle-ground in the war with Fire, and the struggle has been, on the whole, a losing one for the nation. There are some reasons, however, for believing that the present may be the moment of turning, and that the future record may be one of gain. Time alone can make this certain, but should this prove to be the case, no small share of the credit will be due to the National Fire Protection Association.

The magnitude of America's fire-waste has often been stated with due emphasis, but the public consciousness does not begin to grasp the full import of the fact. How many people, for example, realize

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that, in 1914, the city of Chicago alone had a total of 12,447 separate fires, or *more than five to every thousand of its inhabitants*, and that such small cities as Montgomery, Alabama (population 47,000), and Brockton, Massachusetts (population 66,000), averaged nearly two fires daily throughout the year? Underwriters were alarmed when, in 1865, American fire-losses reached a total of \$40,000,000, but there has been but one year since 1905 when the figures failed to exceed \$200,000,000; the annual average approximating \$250,000,000. As already stated (Chapter XII) this country's direct and indirect fire-tax exceeds the value of its total production of gold, silver, copper and petroleum. How can any civilization regard itself complacently when it allows a largely preventable evil to devour a sum in material wealth equal to four of its largest resources? In 1908, the United States Geological Survey published figures showing the fire-tax to be greater than the entire value of the real property and improvements in any of the following states: Maine, West Virginia, North Carolina, North Dakota, South Dakota, Alabama, Louisiana, or Montana. Think of feeding an entire state to the flames each year! The same report expressed the belief that four-fifths of this vast expense was preventable; that with proper building construction there might be saved "nearly enough to build a Panama Canal each year."

These are merely "statistics"; here is the way in which the subject was visualized by Mr. Charles

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Whiting Baker, editor of the *Engineering News*, New York, in an address before the national engineering societies on "Conservation of Natural Resources," March 24, 1909:

The buildings consumed, if placed on lots of 65 feet frontage, would line both sides of a street extending from New York to Chicago. A person journeying along this street of desolation would pass in every thousand feet a ruin from which an injured person was taken. At every three quarters of a mile in this journey he would encounter the charred remains of a human being who had been burned to death.

If this distressing statement represented an unavoidable condition of human existence it would be the duty of the American people to bear it with as much fortitude as possible. But unfortunately for the national pride, this is not the case; a comparison with European countries in times of peace is humiliating to that national sense of pride. Why, it may be asked, should the 1913 loss in American cities be \$2.25 per inhabitant, while that in France was but \$0.49; in England, \$0.33; in Germany, \$0.28; in Italy and Austria, \$0.25; in Switzerland, \$0.15; and in thrifty little Holland, only \$0.11? Why should the 1913 losses of Chicago exceed \$5,500,000 and those of Vienna, a city of similar size, run to only \$300,000? Why should "exposure" hold a foremost place among American fire-causes, while the city of Vienna has never known a case in which a fire has

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spread from one building to another? These questions are insistent and persistent, and the answer to them puts us all the more to shame because we possess the finest fire-fighters in the world; without such fighters the humiliating differences would be even greater. It cannot be denied, in the light of these comparisons, that fires may be prevented, nor that one of the most pressing duties of American civilization is to free itself from the reproach of carelessness and laxity in these matters. To aid in bringing this about is the work of the National Fire Protection Association.

To-day this association includes in its list of one hundred and twenty-nine active members the names of forty-one professional and trade organizations, many of them having a nation-wide influence, and covering almost every conceivable field of activity concerned with the prevention of fire.

The work was inaugurated by underwriters, in a large measure by those who were members of the National Board, but the original stimulus came from a Non-Board source.

Back in 1835, a number of New England mill-owners, under the leadership of Zachariah Allen, formed the first of the "factory mutuals"; that is to say, they undertook to provide joint insurance upon their combined properties. Immediately it became apparent that fires meant assessment, and this fact stimulated an earnest study of means for reducing—*assessments*. It was an affair of the pocketbook;

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and with this impelling motive the mill-owners began to make discoveries and to apply them. Better methods of construction were devised and fire-fighting devices were installed, but the chief contribution of the "mutuals" was the introduction of the automatic sprinkler, the most effective weapon in the whole arsenal of Fire Protection. An indoor fire starting in a small way, as such fires do, would cause a column of heated air to rise to the ceiling where it would melt the soft-metal seal of a ceiling sprinkler, and thus a stream of water would pour directly down upon the flames. Thus, fires became their own firemen. It soon became apparent that mills thus equipped were comparatively free from losses, and the movement toward efficient fire protection received a great impetus.

The National Board, when it was not discussing rates and commissions, for some time had been dealing with the subject in a more or less general and desultory way, but in 1896 a group of technically educated men in the ranks of the stock companies, stimulated by the object lesson of the "mutuals," formed an organization with the prevention of fires as its exclusive purpose, and thus the National Fire Protection Association was born.

The new association began at once to formulate engineering standards. The first was for the installation and use of automatic sprinklers, and this was followed by regulations for the protection of openings in walls and partitions, for fire-pumps, signal-



PRACTICAL LESSONS IN CONSTRUCTION

1. A frame factory partly protected by a fire-wall in the Salem conflagration. The exposed end was destroyed, but the fire was stopped by the wall. 2. This eight-story building was burned out as a result of the fire in the foreground. Had it been equipped with wire glass windows, it probably would have sustained little damage. 3. Automatic sprinklers would have prevented this fire.

TO WIN ABOVE ALL



HOW CARELESSNESS CAUSES FIRES

1. The deadly combination of defective chimney and shingle roof is responsible for thousands of fires every year. 2. Many lives and much property are sacrificed to the propensity of children for playing with matches. 3. The open gas jet is dangerous in a house, particularly when it is near to woodwork. 4. Carelessly thrown cigarette or cigar butts cause numberless fires. 5. The strike-anywhere match has been called "the greatest modern criminal." 6. This is an example of bad cellar conditions; inflammable material is in perilous proximity to the furnace.

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ing systems, hose, hydrants, gravity and pressure-tanks and a long line of similar devices. Being a voluntary dues-paying organization, it had no funds for printing and distributing these standards, and for this most necessary object the National Board assumed the expense. For twenty years, the board has continued to adopt these standards officially, and distribute them without charge among all who are interested in applying them to local conditions. The circulation has been very large, running as high as four hundred thousand copies in a year, and the expense has in consequence been considerable.

The N. F. P. A. was full of energy and devotion, and, in its somewhat academic way, it felt well satisfied with its efforts toward the reduction of fire-waste until about five or six years ago when there came a rude awakening. Some one arose in one of its meetings and called attention to the fact that the fire-waste was not being reduced—that, on the contrary, it was increasing rapidly. This caused anxious thought. The association knew that it had worked out the physical standards which would curtail this waste—if applied. Failure to decrease the waste indicated failure to apply the standards on the part of the public. The people of the nation had not yet been aroused to the urgency of the situation. Some one must assume the important and most necessary task of arousing them. Who? Obviously the body which had studied the extent of the fire-waste, which had worked out the standards, and

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which knew how easily they might be applied. In other words, the National Fire Protection Association had had a burden laid upon it in its very name; it now saw the necessity for adding a course in *human* engineering to its already established work in mechanical and structural engineering.

The daily newspaper seemed to be the most natural means for reaching the public. Accordingly the issuance of press-bulletins was undertaken as an initial step. These were confidently posted to the papers throughout the country, and the good work was believed to be well under way. A few days of anxious searching of newspaper columns ensued and then an unwelcome truth was forced upon the officials of the association; the valuable bulletins had been consigned to waste-paper baskets by editors who knew as little about fire-peril as did their readers; in all the United States the Boston *Herald* alone showed signs of interest. Thus, it appeared that the first necessity was to discover means to arouse the editors themselves.

Secretary Franklin H. Wentworth was fortunately a man of resources. He sought the cooperation of an organization which had the ear of all newspapers—the National Association of Credit Men. This body included the credit men of most of the large national and local advertisers of the United States; it had a committee on fire insurance, and it had become an active member of the N. F. P. A. Moreover, it had local branches in every city of impor-

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tance from Boston to San Diego. Its secretary, Charles E. Meek, entered heartily into Mr. Wentworth's plans for a nation-wide speaking-tour and arranged for local branches to hold their monthly meetings on successive dates in adjacent cities. Then the two secretaries started on a veritable "whirlwind" speaking campaign.

There ensued a series of credit-men's dinners throughout the country. Reporters were on hand at every feast; a meeting representative of the cities' leading business firms possessed news-value which a purely abstract subject might not possess. Thus was learned that first great lesson of publicity: *translate the abstract into the concrete*. Messrs. Wentworth and Meek made rousing speeches and startled their hearers with an array of facts; more than this, they drove home the lesson of individual responsibility in each community. The effect was electrical. The credit men appointed local fire prevention committees to work upon the municipal authorities; the city officials were deeply impressed, and the newspapers became wide-awake in a moment.

The two secretaries were well supplied with prepared material which they left with the credit men to be given to the newspapers while they rushed on to another city. During January, February, and part of March, 1911, these enthusiastic and devoted pioneers were almost constantly on the move, traveling during the day and speaking evening after evening,

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leaving behind them a broadening trail of aroused public interest.

By this means, the N. F. P. A. successfully launched its propaganda. A similar speaking tour was arranged the following year by the American Institute of Architects. The architects themselves greatly needed the gospel of fire prevention to be preached to them, and, in some respects, this second tour was equally fruitful in results. As in the case of the credit men, there were invited to the local meetings of the architects at which the subject of fire-waste was to be discussed, mayors, councilmen, fire-chiefs, directors of Public Safety, engineers, and representatives of Boards of Trade, commercial clubs and similar bodies. The Canadian Manufacturers Association also booked a tour in cooperation with the Canadian club. Thus, in two years, the attention of the entire continent was successfully directed to the impoverishing effect of fire-waste upon the country, and the time became ripe for making certain radical suggestions for fire prevention.

Besides urging upon all towns the official adoption and application of National Board standards, the N. F. P. A. addressed itself to certain specific tasks. One of these was the standardization of the hose-couplings and hydrant-fittings of the various cities. This may sound academic and technical; actually it concerns the safety of human lives and the preservation of untold property values. A few years ago, all the summer cottages at famous Old Orchard Beach,

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Maine, were swept away by a conflagration. Engines from near-by Portland were hurried to the scene and found themselves helpless to aid; their hose-couplings would not fit the local hydrants. They were forced to stand idly by during the destruction. With mechanism, skill, and water-supply all available, there lacked only the slight matter of standardized couplings, but the lack was fatal. When Baltimore was on fire in 1904, engines and firemen were sent by train from New York but could be used only on the water-front for the same reason. Should the highly inflammable structures along Atlantic City's "Board Walk" be swept by flame, Philadelphia is the only large city that could respond in time to be of valuable service, *but* Philadelphia's fire-engines could not be connected with Atlantic City's hydrants. This astounding condition of variation in couplings is wide-spread at the present time. In Columbus, Ohio, the chief of the Fire Department has organized a special association for standardizing hose-couplings within a radius of fifty miles, and some other communities have taken the matter up, but a large part of the country is still imperiling lives and property by official apathy in this important matter.

Another movement which has recently received considerable impetus is the establishment of "Fire-Prevention Day" in various cities and states, in order that attention may be fixed and instruction given in this vital subject; likewise the creation of an office

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of Fire Prevention in various city governments. Although this latter idea had been taken up with success by progressive fire departments in some of the smaller cities, it was not until 1911 that a fire-prevention bureau was established in New York city. In the same year an ordinance was passed in Cincinnati, empowering the Chief of the Fire Department to inspect buildings and premises and order correction of dangerous conditions. The employment of the uniformed force of the fire department for making inspections worked out so well in Cincinnati that it was adopted in New York a little over a year ago. Fire Commissioner Adamson had prophesied that it would be possible to bring about a decrease of one thousand in the number of fires in the city in a year; the actual decrease was 1002 for 1915. A large part of the credit for this showing should go to the uniformed section of the force which made one-and-a-half million inspections during the year.

Boston furnishes a good example of this brand-new municipal function in operation. The fire-loss of "The Hub" had been excessively high for many years, averaging \$3.61 per capita during each year of the decade preceding the appointment of Fire-Prevention Commissioner O'Keefe in the fall of 1914. The new commissioner was given jurisdiction over the entire Metropolitan District, including twenty-five adjacent towns. The figures tell their own story; there was a reduction of 1405 in the number of fire-

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alarms for the first nine months of 1915 (excluding March), as compared with the same period in 1914; and a comparative reduction of \$983,858 in property loss for the first seven months of the year. To put it in another way, there was an actual saving effected for every man, woman, and child of \$1.20, and the work of the Fire Prevention Department was done at a cost of but one and a half cents per capita for the year. A profit of nearly 10,000 per cent. might well be considered a good municipal investment.

To-day, the organized and regular inspection of property by uniformed firemen is coming into popularity in many places, but there are still some of the "old-school" chiefs and commissioners who feel that the duty of a fireman is to respond to alarms—and to play checkers between times. Progressive firemen are now fighting the fire before it starts. Where the system is in operation, firemen are supposed to become familiar with every building in their districts, and to look for all evidences of fire hazard. These may be exposed gas-jets, badly arranged heating-devices, accumulations of rubbish under stairways, obstructed fire-escapes, or numberless other conditions of danger. The timely glance of a trained eye often may avert disaster.

Several years ago, the country place of a New York millionaire, at Mineola, Long Island, was burned. The fire had spectacular features which caused wide comment, but perhaps the most interesting feature was one that is known but to few people.

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In the course of the afternoon preceding the night of the fire, a man who had been trained as a fire engineer called upon the manager of the estate in regard to business unconnected with his profession. Quite by accident he chanced to see the heating system of the house and at once recognized it as highly unsafe. He told the manager that the house might burn down at any minute, and so impressed the latter with the danger that he engaged the engineer to come during the following week to work out plans of safety. The engagement was never kept, for the predicted fire broke out within the next few hours and the house was destroyed. Similarly, potential fires exist unrecognized in scores of thousands of places.

Another value of inspection is to make firemen familiar with the premises where they may be called upon to fight fire, a possible matter of life or death when battling in smoke-filled passageways. A few years ago, a captain in the New York city Fire Department was killed by falling down an unknown air-shaft; his body was not found until the firemen, hours afterward, in breaking through a wall, discovered the shaft. Previous inspection would have given the captain a knowledge of the existence of this shaft.

The N. F. P. A. has especially advocated a law to fix individual responsibility for fires. This point suggests one of the reasons why Europe is more immune than America. There are some countries which do not accept the "didn't know it was loaded" excuse in the matter of fires. If a man has a fire

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which spreads to his neighbor's property, he may find himself assessed with the cost of the neighbor's loss as well as his own; he may even find himself behind prison bars. Innocent intention is not an acceptable defense if he has failed to take proper precautions, and *the burden of proof is on him*. This sometimes works individual hardship, even injustice, but it makes for public safety, which is, after all, a matter of more importance.

In the United States, on the other hand, a fire with heavy loss of life may cause a brief excitement; the words, "criminal carelessness" may be used in editorials, and there may even be an indictment. But when, months afterward, the case comes to trial, absence of criminal intent will be urged in defense and acquittal will follow as a matter of course. Criminal carelessness, the undoubted cause of some of our greatest disasters, amounts almost to a legal fiction. The European system *enforced* in this country would work miraculous results in saving life and property.

For a final point, the National Fire Protection Association aims to bring fire prevention home to the mass of the public by encouraging specific education. Recently a lecturer in one of our largest cities was discussing fire hazard. Before him on the table rested a sample of the city's fire-alarm box. In the course of his talk, he invited any of his audience to come forward and illustrate the method of sending in an alarm; no one stirred, and it developed that none

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of them possessed that knowledge. Stationed at the back of the hall were several policemen, and the lecturer next requested one of them to come forward. To his surprise, they grinned sheepishly and stole out of the door. Investigation proved that they were as ignorant as the audience. The city was fully equipped with efficient fire-alarm boxes, whose use at some time of excitement might be a matter of great importance, yet the human factor was lacking—both public and police were untrained.

One of the most terrible fires in New York's history was that of the Windsor Hotel. At the time of its outbreak, the negro chef of a wealthy woman, living on the opposite corner, chanced to glance out of the window and saw an unfamiliar wisp of smoke curling about the familiar hotel cornice across the way. Dropping everything, he hurried into the hotel lobby and tried to tell the clerk what he had seen, but that dignitary abruptly ordered him from the building. Somewhat crestfallen, he returned to his work. A few minutes later, he glanced again at the cornice and this time distinctly saw flames; he therefore returned prepared to insist. As he approached the second time, the cry of fire came from inside the building and a messenger was despatched to turn in an alarm. This messenger, in his excitement and ignorance, rushed past a fire-box and attempted to send an alarm from a near-by letter-box. In all, so much time was lost that the Fire Department was unable to prevent a shocking loss of life.

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In January, 1916, the elevator-boy in a New York apartment-house discovered fire in the middle of the night and had the presence of mind to rush at once to an alarm-box. This he opened and then returned to the task of getting out the tenants, not knowing that the simple act of opening a box did not send in an alarm. It was not until an alarm was sent by another person that the department responded. There are countless other instances. Ignorance as well as carelessness takes heavy toll of life and property; and the day may come when it shall be recognized as *criminal ignorance*.

The complete banishment of these foes may not be achieved by the present generation, but systematic efforts are being exerted, steady progress is being made, and the day is foreshadowed when the occurrence of fires, save under extraordinary conditions, shall be regarded as inexcusable. This is the millennium toward which the new-style underwriter is eagerly pressing, and his rates are gladly adjusted to every indication of lessening risk.

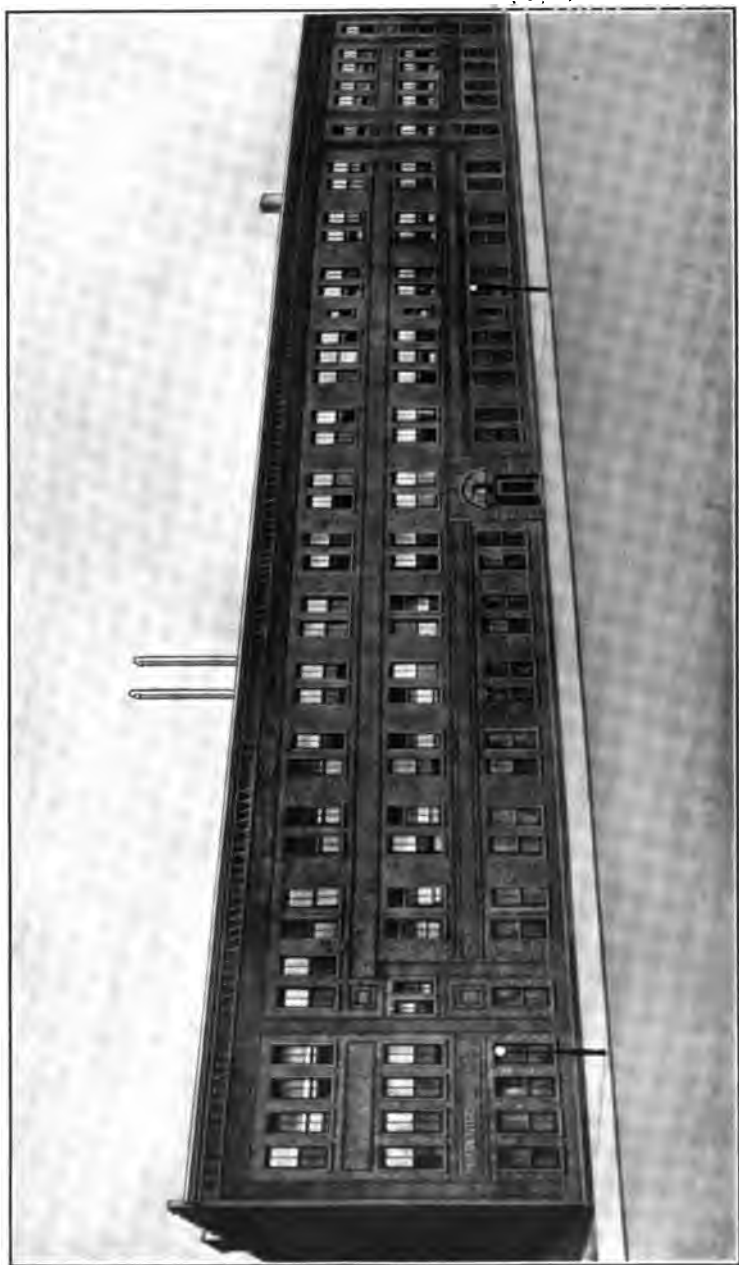
XVI

A VISIT TO THE UNDERWRITERS' LABORATORIES

A YEAR or two ago an English tourist sought the president's office at 207 East Ohio Street in the city of Chicago. "I have been told," he said, "that the two most interesting points in Chicago are the stock-yards and the Underwriters' Laboratories." He was allowed to inspect the latter remarkable institution and left with the feeling that his informant should have named the Laboratories first.

There is no parallel to this institution in all the world. One might pass its unassuming front without suspecting that behind the rows of quiet windows, Science is waging the war of Civilization with Fire. It wears a dignified, rather academic air, yet the intensely practical nature of its activities has nothing of the abstract in it. It is a first line of defense for the protection of the American people. It does not exist for the purpose of fighting fires, or even for the removal of hazards; *it seeks to prevent the creation of hazards*—and has prevented them in countless thousands of cases. It is probably not going too far to state that human life is safer and property more secure in every community throughout the country

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"THE RATHER ACADEMIC-LOOKING BUILDING IN EAST OHIO STREET"

Otherwise, the Underwriters' Laboratories of Chicago. In this wonderfully interesting building Science is waging the war of Civilization with Fire. "Human life is safer and property more secure in every community throughout the country because of the powerful though unrecognized influence that emanates from East Ohio Street."



THE OFFICE OF THE PRESIDENT

The Underwriters Laboratories are housed in perhaps the most completely fire-resistant building in the world. This office is a demonstration of the artistic possibilities of this form of construction.



HIOSE TEST

The picture shows the Chief of the Chicago Fire Prevention Bureau witnessing a bursting-pressure test of samples of rubber-lined fire hose. The bursting point is indicated on the gauge. Tests on fire hose also include elongation and warping tests, chemical and physical tests to guard against labeling rubber compounds not giving promise of long life, suitable tests of hose jackets, etc.

because of the powerful though unrecognized influence that emanates from East Ohio Street. All of which remains to be proved.

First, however, it is well to recognize that the Fire War differs from mankind's other struggles in what may be termed its universal latency. Fire possibilities exist on every hand; they are found in the most unthought-of places. It is natural to associate fire hazard with a box of matches, but who would look for it in a glass of water? Yet potassium or sodium thrown into water bursts at once into flame, while a few drops of water upon gray, rocklike calcium carbide produce explosive acetylene gas. Many fires have been caused by water. Fire is continually originating in the most unexpected ways—by a sunbeam chancing to fall upon a telescope standing amid loose papers, by the spark from an accidental hammer-blow in a room containing gasoline fumes, even by the well-meant action of a hospital nurse in oiling the body of a live-steam victim and covering him with blankets—in this case, spontaneous combustion cost the life of the patient. When furniture manufacturers introduced forced-draft ventilators to draw the fine wood dust from their machines into a receiving chamber, the thought of fire hazard was far from their minds, yet disastrous blazes have resulted from this source. Explosions of dust in flour-mills are well known. The kiln-drying process for lumber has been a prolific fire-cause.

Invention is a constant hazard; new devices and

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processes are continually introducing elements of the greatest danger. This already has been noted in the case of electricity, but equally striking is that of the internal-combustion engine, which made practical the automobile and the motor-boat. It found gasoline a mere by-product and left it a universally useful, universally dangerous commodity, serving mankind in the most important ways but causing innumerable fires. The versatile but highly inflammable celluloid is another case in point. There is also a lacquer used in shoe manufacturing and known to the trade as "dope"; it is prepared from celluloid scrap and its use in a wooden shed was the starting point of the thirteen-million-dollar Salem conflagration in 1914. The giant new industry of moving pictures was not generally supposed to be hazardous until disastrous fires and serious loss of life resulted from it. There is a well-recognized fire-hazard in incubators, in curling-irons, in rain-coat manufacture, in various polishing, cleaning, and sweeping compounds, and in countless other products and processes.

The celebration of holidays is a factor of no small importance. The fire-record of the Fourth of July is too familiar to need discussion, but underwriters realize that Christmas with its Christmas-tree candles, its tinsel and its cotton snow is a constant source of danger. So also, is the Jewish custom of burning candles in religious observances, and the Roman Catholic use of lighted candles about the dead.

With the daily use of fire for purposes of cookery,

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lighting, heating, commerce, industry, art, science, or pleasure by almost every individual in every community; with sparks borne by the winds from smokestacks and chimneys; with barns and houses burned by lightning; with the omnipresent commercial electricity always ready to transform itself into fire through some defect in transmission, and with fire hazard lurking unseen in the incessant stream of devices emanating from the busy brains of our inventors, there can be small wonder that appalling destruction marks the pathway of man's most useful servant. It has been regarded as an unavoidable wage for indispensable service; the work of the Underwriters' Laboratories is directed toward a vast reduction in the wage and a notable increase in the service. When this fact is realized, it will be seen that the world has a great stake in the far-reaching but unostentatious work now being conducted by the fire-insurance profession in the interests of civilization as a whole—practically altruistic work undertaken—from an altruistically practical motive.

With these facts in mind, a visit to the laboratories is an education. An interesting note is struck at the moment of entrance and maintained throughout; it is that of the possibilities of beauty in fire-proof construction. This Chicago plant is perhaps the most completely fire-proof building in America; with the exception of the chairs, no wood is used in construction or furnishing, yet the treatment of brick, metal,

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concrete, and tile is delightfully artistic. This is particularly evident in the office of President Merrill, who explains that it is intended as an object lesson to architects and builders to correct the general impression that the use of wood is necessary in a beautiful interior. He calls attention to the fact that instead of concealing poor masonry under mahogany wainscoting and paneling, an equally agreeable result may be secured by the use of good masonry that needs no concealment. The steel doors, windows, and trim represent a somewhat larger original investment, but this is soon counterbalanced by the saving in maintenance, it being unnecessary to call in carpenters for readjustments or repairs. In other words the use of fire-proof interiors justifies itself both artistically and economically.

This, however, is merely incidental; the building is essentially a place of activity, and the happenings that take place on its forty-five thousand square feet of floor-space are probably as diverse and as interesting as may be found under any one roof in America. Its hundred employees are not a force of workmen but a staff of highly qualified experts. The expensive plant is not a money-making institution, but an investment by Insurance in the science of protection from fire. Its chief financial support is obtained from the National Board, under whose general direction the work is carried on. Specifically, its purpose is that of furnishing exact knowledge on the "merits of appliances, devices, machines, and materials in re-

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spect to life, and fire hazards, and accident prevention."

To this building, therefore, come the thousands of products of hundreds of manufacturers—a layman wonders to see how many different kinds of things are directly or indirectly involved with the fire-question—and there they are put through a series of the most exacting tests, by means of scientific apparatus and under the eyes of trained experts.

For example, the quality of fire-hose may be a matter of life or death; some years ago at the Parker Building fire in New York, it was a matter of death to many, for a number of lengths burst under pressure of the water. Poor hose may look all right, since the essential rubber tube is covered with fabric. Some fire chiefs claim that they can test rubber "by chewing it." President Merrill has a standing offer of twenty-five thousand dollars per year for a scientifically accurate "chewer"; it would be worth that amount by enabling the laboratories to dispense with expensive apparatus and save valuable time. It is needless to add that the offer has never yet been claimed. In the mean time a more painstaking method is pursued. Standardized samples of rubber are taken from the hose and placed in a stretching machine, which slowly and steadily draws them out, longer and longer, thinner and thinner until—snap! the strain has been too great. This exact point is noted on the scale by the watching inspector; it shows the elasticity of the rubber. In another room is a

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quantitative test of sulphur content; here shredded rubber is treated for its chemical reactions. Against the wall is a remarkable battery of electrical ovens where rubber is consumed under delicately regulated heat for the ash-test. These tests show precisely how the rubber is made, and therefore how long it should last. Manufacturers' claims or firemen's tastes are of small account when the voice of Science has spoken. So delicate are some of these tests that the exact position of the crucible in the oven shows in the results. For a final process, a length of hose is subjected to an increasing water-pressure until finally it is compelled to burst, and this point is indicated by a gage. A manufacturer whose hose can satisfy the laboratories need have no fear of the test of service.

Defective insulation developed in a Brooklyn home, and a whole family was burned to death; thus the quality of insulation is another of the life-or-death questions of our day. Many samples of covered wire, accordingly, are received at East Ohio Street for inspection, and special apparatus has been invented for this one purpose. It includes devices for removing the braid and for separating the fabric from the rubber, a scratch-wheel to remove all traces of the impregnating compound, rollers to strip the rubber from the wire, and other rollers to grind it into shreds for the chemical and ash tests. There is a micrometer microscope for determining the thickness of the rubber and a dial micrometer for showing

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the thickness of the braid; the temperature of all tests is carefully prescribed. All of this ingenious and expensive trouble to pass upon insignificant bits of wire—is it really worth while? Yes, for the wire is the channel for civilization's life-force.

Most fires are traceable to matches. These omnipresent bits of wood carry with them a tremendous responsibility. Some one has said that the "strike-anywhere" match is the greatest of modern criminals. It is interesting to watch the test to determine whether the product of some manufacturer is worthy to bear the laboratories' standard label. A miniature device like a tiny pile-driver drops a weight upon the head of match after match; many of the unlabeled matches ignite and hence are unsafe, while those from the labeled boxes remain intact. The labeled matches also burn without an afterglow and without dropping their heads. A breaking device shows the quality of the wood. The fallen end of a brittle match may flare underfoot and cause a fire. All of these possibilities are considered in making the tests.

There are many rooms in the building. They are filled with complicated apparatus and occupied by inspectors who are so intent upon their tests that they give slight notice to visitors; the whole effect is one of concentrated attention. One of them is following the operation of an automatic machine that will turn on and off any electrical switch or socket known to the market. There is a whirring of gears, a snapping of switches and a flashing of bulb-lights, all having

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their meaning to the inspector's eye. Another is experimenting with a gas for use in welding that has been proclaimed as being safer than acetylene; the test does not seem to bear out the claim, although the manufacturer may have been sincere enough, since his facilities for testing were probably inferior to those here employed.

Sometimes the manufacturers are mightily surprised. One of them felt such confidence in the non-explosive qualities of his particular preparation that he offered to stand by the generator with a lighted cigar. The inspector, wise with the experience of many tests, firmly vetoed the cigar, but finally permitted the enthusiast to stand by the machine. To his consternation, the bell of the generator presently soared to the ceiling with a bang, and he was covered from head to foot with the sludge. A sadder and wiser manufacturer retired to clean his clothes and observed that apparently there was "only one way in which a d—— fool could learn anything."

Electrical stoves are found in many kitchens. Here is a stove being put through its paces. The manufacturer claims that it will automatically shut off the current at the danger-point, but when the inspector allows current to continue until the heat-danger point is reached the shut-off fails to work; the insulation burns and sparks fall on the testing-table. In a kitchen such an occurrence might cause a fire; it is wiser to learn this fact in the laboratory.

Such diverse devices as pop-corn machines, auto-



STUDYING FIRE HAZARD

The countless materials used in the arts and industries are tested for their various degrees of fire hazard by scientifically trained inspectors.



ADJUSTING THE SWITCH AND SOCKET TESTING MACHINE

An inspector is engaged in preparing for a test this intricate apparatus, which will automatically turn on and off any electric switch or socket known to the market.



RUBBER STRENGTH AND STRETCH TEST

The quality of rubber in a fire hose may be a matter of life or death in an emergency. This machine is one of the devices for obtaining exact knowledge on the subject before the fires occur. A strip of rubber taken from the hose is here shown being stretched by an inspector, who measures its exact breaking point.



VAPOR EXPLOSION TEST

In one corner of the Chemical Laboratory a test is being made for explosive properties. This is the way in which *accidental* explosions may be obviated.

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matic photographing machines, dentists' appliances, and countless other things are being examined. The tests in these cases consist in physical inspection for defects that the inspector's trained eye has led him to suspect, and then in operating under the most unfavorable conditions which would be met with in actual use. The fool will never be eliminated from society; safety can be found only in "fool-proof" devices. Appliances in endless variety are being manufactured, bought and inexpertly used by people who are intelligent or stupid, careful or careless as the case may be. The intelligent, careful man may at any time be endangered by the carelessness or stupidity of a neighbor. From this, the work of the laboratories furnishes his greatest protection.

Some of the tests are not without spectacular features; among these are those with roofing. One of the many makes of composition shingle-roofing is applied to a sloping framework like a steeply pitching roof, and there is literally "tried by fire." In use, it might receive the heat radiation from some neighboring blaze without being actually subjected to flame or sparks. Accordingly, a big drum-shaped burner to radiate heat is lowered from the ceiling and made to glow above the sample of the roofing for a specified number of minutes. If no bad results are observed, the protection from radiation is sufficient. The next test is more searching. Suppose that the roof were attacked by actual flame, suppose that the flame were driven by a gale; this might happen in a

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conflagration and the safety of the house would depend upon a genuinely fire-proof roof. The inspectors do not speculate upon the roof's qualities; they find these out by producing a conflagration and gale to order. For this purpose, the sample is pushed forward to the opening of a huge blower-duct, the jets of a burner are lighted, and the wind-machine is set for forty-five miles an hour. There is a roar, and a mass of flame leaps from the opening to strike upon the roofing with such intensity that even the inspectors shrink back. The composition-shingles, in this case, are unable to stand the test; almost immediately they begin to curl and ignite. That is the answer; they would do this in a conflagration. Their final appearance is recorded by means of a camera.

In another room there is a test in progress to determine whether a new form of "thimble" for connecting a stove-pipe with a chimney will afford the proper protection. The stove-pipe, under the forced draft of a gas flame, soon glows cherry-red and after a definite time, the woodwork behind the thimble is examined to see if it be injured. It is found to be slightly charged. The inventor has been standing by; he looks disappointed, but says that the showing is better than the last time. It develops that he has made considerable changes in the device within the past few weeks because repeated tests, here made for him, have shown him its defects. He pays a fee for the tests, but the valuable advice of the inspectors is his without charge. Manufacturers often re-



FIRE TEST OF ROOF COVERINGS

In this picture, flame propelled by an artificial gale of forty-five miles an hour is subjecting the roof covering to a *real conflagration test*. Inspectors note and record heat, air, pressure, condition of roofing, etc. The drum-shaped device, suspended above the roofing, is used for making tests with radiated heat.



PANEL-TESTING FURNACE

A great fire would not present severer conditions than does this furnace, which is used for fire tests of various sorts of building materials, such as brick, wired glass, wired-glass windows, metal fire doors, metal-clad fire doors, etc. In testing a fire door, for example, the door is installed in a portable brick wall, which, by means of an overhead trolley or crane, is moved into the furnace. Here one side of the door is exposed to gas flames, uniformly over its entire surface, and the temperature is raised to 2000 degrees Fahrenheit. At the end of an hour the door is withdrawn and subjected to the impact of a standard hose stream. The photograph shows the rear of the furnace.



TESTING WITH A HOSE STREAM

After coming from the Panel-Testing Furnace, the heated door, window or other test subject is frequently subjected to the impact of a fire-hose stream. This condition might be met with during a fire.

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ceive the greatest help. One man who had paid a thousand-dollar test-fee said that he would not take twenty-thousand for the benefit derived.

There is a special contrivance for submitting fire-doors and fire-windows to the intense heat of a conflagration. In some cases the glowing door is taken from the furnace and subjected to the full force of a fire-stream. Such conditions might arise in a real emergency, and the inspectors must make sure of what would happen. Formerly the conflagrations themselves were the sole laboratories for severe tests; builders and underwriters could only theorize until the catastrophe showed them whether they were right or wrong. Now they are eliminating guesswork.

Especially is this true in the case of the forthcoming column test, for which a thirty-thousand-dollar apparatus is now in course of preparation. The buckling of several steel columns under great heat and the pressure of upper stories may ruin a million-dollar office-building. The encasing of the column and its construction have therefore been the subject of much debate, which soon will be settled by exact knowledge, for a mighty combination of furnace and hydraulic press will make it possible to produce any desired amount of pressure at any given degree of heat.

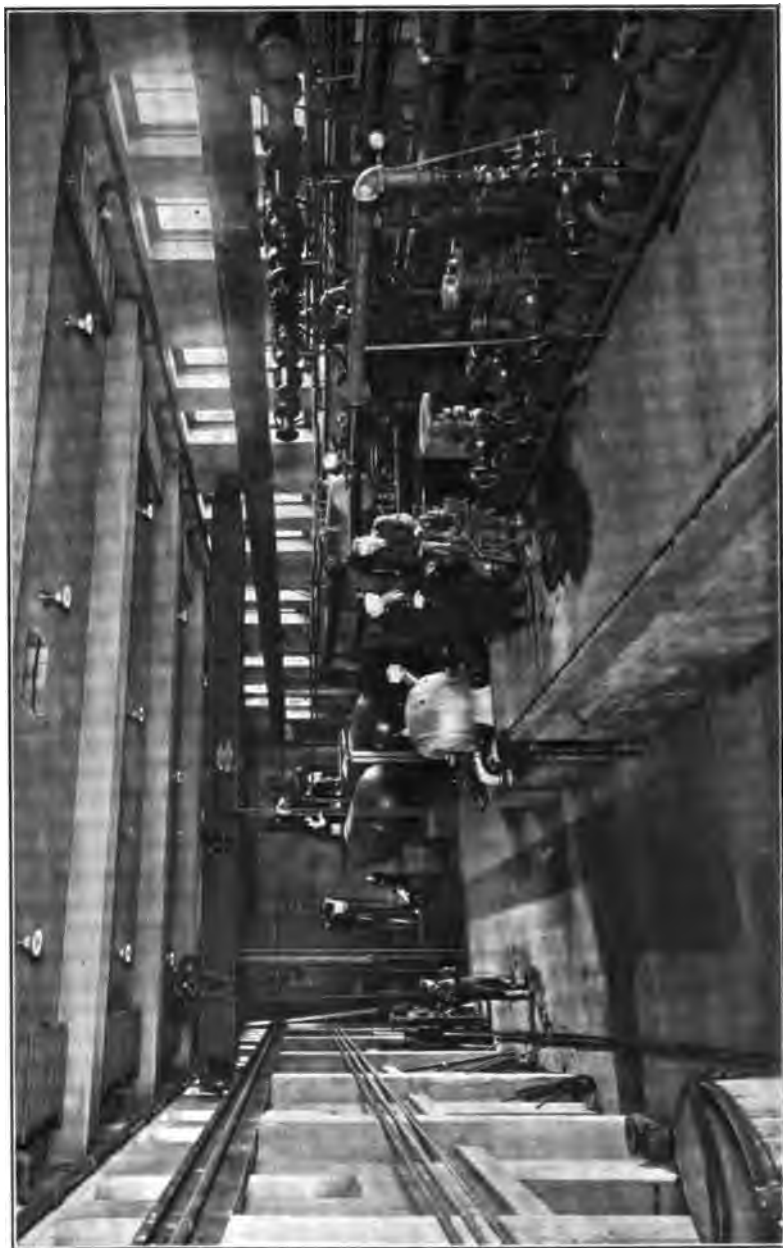
Every known form of column and covering has already been collected. In this unprecedented test, the Federal government, the National Board and the Mill Mutuels are sharing the expense. .

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In one section is the great hydraulic laboratory for testing valves, pumps, couplings, hydrants, sprinklers, and other devices of this general class. It is filled with appliances for delivering volume, producing pressure, or creating any desired test-condition. And herein an interesting precaution is taken—water isn't merely water; it is fresh water, salt water, clear water, muddy water, alkaline water, soft water, and what not. A valve or a pump might work perfectly with the clear Lake Michigan water of Chicago, but give trouble with the more substantial fluid used by St. Louis or Cincinnati, and it is always to be remembered that such trouble might be a serious matter in a fire emergency. The hydraulic laboratory, therefore, has facilities for producing imitation Mississippi River water or any other kind that has to be reckoned with. This is an example of the intensely practical, non-academic methods pursued.

One test in progress in the far corner, reveals another interesting fact; it is being conducted by a squad of students from the Armour Institute of Technology under the direction of their instructor, a trained fire-prevention engineer. A good deal of this class-work is carried on in the laboratories with the cordial co-operation of the management. It brings in additional skilled assistance without expense, and it aids in training more engineers for the "Cause." In this case, the value of a window-sprinkler is being determined, and a number of receptacles are carefully

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THE HYDRAULIC LABORATORY

Pumps, valves, fittings, sprinklers, and other hydraulic devices are here tested under any desired pressure, and fresh, salt, alkaline, muddy, or clear water can be furnished as required. A complete crane service makes it possible to move heavy apparatus into any position. The laboratory is so arranged that several test crews may be engaged simultaneously on independent tests without interference. The system of supply and pressure control is of special design. Students from the Armour Institute of Technology are shown at work in the rear of the room.

[illegible]

THE ORIGINAL "ARSON REWARD FUND" SUBSCRIPTION

This paper, bearing the signatures of many famous underwriters, was an early measure of fire prevention on its moral side. The fund has resulted in nearly four hundred convictions to date; it probably has prevented thousands of fires.

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placed to show the exact distribution of the sprinkled water.

So much for a brief and superficial survey of the tests, although their extent has scarcely been indicated. There still remains the important point of making the results of these tests effective by improving conditions out in the world where the fire-hazard occurs. This is largely done by means of labels. Take, for example, the single matter of fire-hose. The campaign so long waged by the National Board, the National Fire Protection Association, and associated bodies has called the attention of cities and private users to the importance of having hose that will assure safety. Something better than manufacturers' claims being required, thorough tests are made, as already described, and then to all makes of hose that have proved their worth is affixed the label of the Underwriters' Laboratories. The more important users of fire-hose to-day insist upon being furnished with "labeled" hose, and thus take no chance with its quality. They know that the tests are rigid and impartial, that they are not subject to influence or prejudice, and that the one requirement for any manufacturer is that he be able to meet the exacting standards demanded of him.

This same condition affects extinguishers, wires, electric fans, fire-doors, matches, metal-polish, or any other of the myriad subjects of investigation; in each case it is a question of "test and label" and *fifty million Underwriters' Laboratories labels were affixed in*

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1915. That is why this institution actually extends a powerful protective influence throughout the country.

The Chicago plant is supplemented by seventy-seven other offices in the United States, six in Canadian cities, and one in London, England. A staff of field-men is maintained because much of the work must be done in various factories. The detail of this organization is somewhat highly complicated; that it should work so efficiently is a tribute to the genius for organization of President W. H. Merrill, since it has been largely worked out by him.

Not only are there constant tests in the laboratories of goods sent by the manufacturers, but similar goods are regularly purchased in the open market for check-tests and the laboratories' engineers go to many factories for inspection and to label or otherwise mark standard goods. The manufacturers pay for inspection and labels at prices so low that they rarely affect the cost of the goods. There is, of course, nothing compulsory about this; no manufacturer need submit to the inspection unless he desire, but he finds sufficient motive in the selling advantage of the label; it is becoming increasingly difficult to dispose of unlabeled goods to important customers. The standard is widely recognized and respected.

But what of the manufacturers of the country—do they cooperate? Their general attitude is one of the most encouraging features of the entire project. Their early suspicions having been disarmed by the efficiency and impartiality of the laboratories' inspec-

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tions, they have shown a really enthusiastic spirit of cooperation. Instances of opposition or bad faith are becoming so rare that the inspectors tell of them as a farmer would tell of a two-headed calf. In one instance a manufacturer presented some goods to the inspectors and when they were approved and labeled, he removed the labels and used them upon an inferior grade of the same material. He then returned the first lot of goods and the process was repeated. The inspectors grew suspicious and privately initialed the samples. The next time the same goods made their appearance the initials revealed the fraud, and approval was immediately withdrawn from the manufacturer. In course of time, he desired to reinstate himself and was told that it would be necessary for him to maintain two of the laboratories' inspectors in his factory. Thus the price of his deceit outweighed any possible advantage.

In another instance a railroad called for bids upon a large number of fire-extinguishers and specified that they must bear the laboratories' inspection-label. The bids received were fairly uniform with the exception of one, which was far below the others. This aroused suspicion, and the railroad communicated with President Merrill, who advised an order of a sample hundred, and at once sent an inspector to the factory to see them made. The first few were passed as satisfactory, and then the inspector was told that the plant had been shut down for boiler repairs. He refused to leave, however, and waited for the

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work to recommence. After several weeks, in which repeated efforts were made to persuade the inspector to take his departure, the manufacturer threw up the order, admitting thereby dishonest intention.

But such cases as these are merely the exceptions that prove the rule. Most manufacturers are glad to cooperate with the laboratories, and they show an appreciation of the assistance rendered in maintaining high standards. They are always notified when these tests are to be made, and frequently are present at them. The laboratories' officials now aim to throw a larger measure of responsibility upon the factory, so that the manufacturer shall send for test only such goods as are already satisfactory to him. If, after claiming that he has tested his own goods and has discarded everything falling below the standard, the manufacturer can be shown that the standard so established is still defective, the moral stimulus is very great. The entire purpose of the institution is thus to get away from merely academic view-points of commercial values. It is run by the National Board at a large annual deficit, but it enjoys the very general good-will of the manufacturers.

Within the past several years, an ingenious demerit system has been devised. Like a country-school "spell-down," this has the never-failing interest of competition. The manufacturers in any given line are, metaphorically speaking, stood up in a row and tested in order to see who shall go to the head of the class, and who to its foot. This is accomplished by

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demerits charged against their goods. The percentages of failures of total tests are figured for three-month, six-month, and twelve-month periods, and sheets are sent out to all the manufacturers showing results; the manufacturing plants are designated by letters, each man knowing his own letter but not that of his neighbor, and the letters are frequently changed. A manufacturer can thus readily see whether he is gaining or losing in the contest—not for orders but for perfection. Interest is keen, and results have been really notable. Indeed, the whole atmosphere of the institution tends to raise one's faith in human nature.

The origin of the Underwriters' Laboratories may be traced back to 1893 when W. H. Merrill, a young electrician, came to Chicago to serve the Chicago Underwriters' Association in inspecting the electrical installations at the World's Fair. He had the laboratory idea so much in mind that it became an obsession, and finally he obtained the necessary insurance support to open a tiny testing-room over the stable of the Salvage Corps. It was equipped with a bench, a table, some electrical measuring instruments, and a few chairs; the force consisted of three men. The quality of the testing work began to attract attention outside of the Middle West, and soon the National Board decided to make an appropriation for it. The Underwriters' Electrical Bureau, as it was first called, now became the Electrical Bureau of the National Board.

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During the next few years, the work was broadened to include other branches of fire-prevention and fire-protection engineering. In November, 1901, the bureau was incorporated as the Underwriters' Laboratories, and, in 1904, having outgrown a two-story building on East Twenty-first Street, land was secured on East Ohio Street for the present plant, which has been several times enlarged. Supplementary offices have since been opened in many cities. The number of employees has increased from three to three hundred, and the work now covers the United States and Canada, with some business in England, Germany, and France. The annual budget is \$300,000.

As is perhaps inevitable in an institution of such vitality, the work is broadening into another altruistically practical field and has begun to give attention to the correlative subject of safety-appliances; all of the apparatus in the laboratories is equipped with devices to guard against accident.

This, then, is a hasty passing glimpse at the happenings behind the unassuming rows of windows in the dignified, rather academic-looking building of East Ohio Street.

XVII

FIRE INSURANCE IN ITS RELATION TO THE POLICY-HOLDER

“**A** *LTER Alterius Onera Portate*”—“Bear ye one another’s burdens”; this is the former motto of the New York State Insurance Department. This, too, is the essence of the principle of fire insurance with one very important amendment—mutual helpfulness is made workable and permanent by being put upon a *business basis*. Waves of altruism are generally emotional and spasmodic; they are beautiful but short-lived. Civilization takes a forward step whenever altruistic action is freed from emotionalism and made self-sustaining.

It has been shown that fire-waste is among the greatest afflictions of the American people, which means, of course, that an enormous number of individuals suffer personal loss from fire. If “America” suffered a \$221,000,000 fire loss in 1914, it was because John Smith lost \$300, William Jones lost \$2700, and Henry Brown lost \$85,000, together with a sufficient number of others, all individuals, to make up the total. In many instances this loss would mean ruin if outside assistance were not rendered, and, throughout the world’s history, until within the last few generations, private charity has been the only

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source of relief. The hardship of such a situation needs no comment. Insurance at last brought an interesting principle into play—the mere multiplication of fire-losses made possible the relief of each individual loser by establishing a basis of averages.—

—Note the distinction: when *one* man has a fire it is his own misfortune. He must bear the loss if he can or else seek assistance, but the fires of *many* constitute a community of risk, shared by so many individuals that it becomes possible to apportion indemnity among those who desire such protection. In the case of fire insurance voluntary payment by millions of people proves that the public desires protection. When a man pays money that he need not pay, he believes presumably that he is receiving an equivalent. How account for the long-continued, widespread and constantly-growing voluntary resort to fire insurance unless its essential principle be sound?

There are, nevertheless, certain radical spirits who would change the voluntary into the compulsory by making fire insurance a state institution. There is an occasional outcropping of this idea in legislative bills but fortunately none as yet has been enacted into law. If there were a fundamental principle would be violated. Fire insurance must be a private charge, not a public one; because *the principle of private contract is inherent in its operation*. If, for example, a man should refuse to pay his road-tax, giving as reason that he did not wish to have the road kept in repair before his house, he would be overruled since

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a granting of his wish would inflict hardship upon the traveling public. The same thing is true in many other matters of taxation; the failure of an individual to conform interferes with the rights of the public, compulsion is therefore necessary and justifiable. On the other hand the failure of an individual to carry fire insurance violates no public right since it concerns a property relation and must be dealt with as are other property relations. It is a public matter only in the sense that it concerns so many individuals in the community, but it concerns these *as individuals*; with certain exceptions each policyholder is interested in no policies but his own. It follows, then, that coercion, however well meant, is public interference with private rights; not public protection of public rights.

Closely associated with this distinction is the matter of private collection; in other words, the fact that protection is afforded and premiums are collected by business organizations and not by the state. While this is a logical consequence of the right of private contract, most policy-holders are what the late William James would have classed as "pragmatists"; they are little interested in theoretical logic but are very much concerned in finding out "what things will work." They require assurance as to three things: Sound Protection, Fair Rates, and Equitable Business Methods. If public insurance could furnish these requisites to greater advantage than company insurance, there would be no hesitation

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about making the change. Leaving aside all discussion of dangerous innovations, socialistic tendencies, and the like, the first point to be noted is that state insurance, the only form that could be made compulsory, is at a distinct disadvantage in the first of these requisites—it cannot guarantee sound protection in an emergency. This is due to a fundamental reason: *it lacks breadth of average*. The statement of the Governor of Wisconsin (see page 128) furnishes a striking commentary on this point. National fire insurance is out of the question; the only form that has come in for any discussion is that which would be established by the separate states, and no single state can compete with companies that do a nation-wide business in the matter of averages. To make this clear, let us suppose that California had been insuring the property of its citizens at the time of the San Francisco conflagration. Imagine the effect of suddenly adding \$220,000,000, the losses borne by insurance companies, to the burden of one state's premiums. This would have bankrupted the state, most of the insurance would have remained unpaid, and the rebuilding of San Francisco would have been set back by many years. It would, parenthetically, have put an end to all talk of state insurance.

It is easy to see how the companies were in a stronger position to meet the San Francisco calamity than the state would have been; they could distribute

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the loss over the entire world. Such a conflagration, in fact, is like a cloud-burst, which would turn a stream into a flood but make little difference in the level of a lake. This must not be considered an extreme deduction from an isolated case for, in the words of the United States Geological Survey report, and to the knowledge of all underwriters, "the danger of conflagration is present in every city and village in the United States." This fact indicates that sound protection—emergency protection—requires broad averages such as cannot be found within the limits of a single state. These averages, therefore, cannot be commanded by state insurance; they can be and are commanded by companies doing a widely distributed business. It may be questioned whether a state would have the constitutional right to tax its own citizens for the benefit of the citizens of other states, as would have to be done if the law of averages were to operate as observable in fire insurance by corporations.

The question of Fair Rates is the next for consideration. In the public mind and to the political demagogue, "fair rates" mean but one thing—lower rates. The underwriter, however, would not define them so easily and simply. The magnitude of the subject is something that the public and the politician fail to realize.

Any individual building may stand for a century or may be destroyed within a fortnight, but when a

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sufficiently large number are considered, there can be little doubt that fires will occur in some of them each year. No actuary may know how many or which; his whole concern is that of fixing such a rate that all risks may bear their just proportion of the total loss, may pay the legitimate expenses of the business, and may yield a small return upon the capital required. In doing this he must take into account all possible variations in construction, occupancy, exposure and protection. It will be realized that his task is not a simple one.

It is for this reason that underwriters will freely admit that rates may be too high in some classes of risks and too low in others. They are as anxious as is the policy-holder that such errors should be corrected, and the Actuarial Bureau of the National Board is going to great expense to work out broad tables of averages that shall help them to do this. Most of the state legislative investigations have admitted that average rates are not excessive, and that underwriting capital receives small returns. For example, the 1911 report of the Illinois Fire Insurance Commission has this to say:

As we have shown, the publication of these basis-schedules have produced rates that have left an aggregate net profit on all premiums not over $2\frac{1}{2}$ per cent. for any ten-year period. It will not be contended that this profit on the sale for indemnity is exorbitant; in fact, it is so close to the dead-line of cost that rates as a whole

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will bear no reduction unless a corresponding economic reduction can be effected in the two elements of outgo, that is, losses and expenses.

Those who have studied the subject well generally admit that, in spite of the infinite complication of the matter, fire insurance rates *on the whole* are not far from what they should be. Still, this fact does not satisfy the individual policy-holder. It is quite possible that he may be paying too much because some one else is paying too little, or, which is quite as bad from an economic standpoint, his undercharge may be laying an unfair burden upon some other policy-holder. Rates should be fair as between risks in their respective classes as well as in average. This again is a problem of incredible difficulties, and its complete solution may never be attained. In the mean time, various schedules are being used with a fair degree of success, and of these the most conspicuous are the Universal Mercantile Schedule, largely the work of Mr. F. C. Moore, and the Analytical Schedule, originated by Mr. A. F. Dean.

The Moore and Dean schedules, as they are commonly known among the underwriters, have their respective partisans and have been derived by approaching the subject from somewhat different angles. The first assumes a flat "base rate" for a building of any given type and reaches its final figure by addition and subtraction, certain amounts being added for various elements of hazard and certain reductions be-

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ing made for conditions that would lessen the same. In the Dean schedule a base rate is likewise assumed, but the charges and allowances are calculated as percentages of this base rate instead of being added or subtracted as flat amounts, thus recognizing a relationship between the hazards. The Experience Grading and Rating Schedule, originated by Mr. E. G. Richards, has just been published (1915) and has not yet received the test of service. In brief, it proposes to make a scientific application of the extensive information being collected and formulated by the Actuarial Bureau, through a minute study of loss-experience. Still another schedule which has not yet been put into actual service is the L. & L.—an adaptation from the Moore and Dean schedules. The preparation of each of these schedules has represented long and arduous work whose highly technical nature may not even be indicated in such brief summaries, but all of them have been earnest efforts to approach a solution of the world's most intricate financial problem. The offhand opinions of politicians are hardly comparable with all this exact knowledge. So much for the discussion of the second requisite—fair rates.

The third factor, that of Equitable Business Methods, means, essentially, straightforward policy contracts, freedom from unfair discriminations, and prompt adjustment and payment of losses. The conditions of the policy-contract to-day are regulated by law in most of the different states and the New

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York state standard form has been usually adopted for states that do not prescribe their own standards. Discrimination against individuals is virtually non-existent, and discrimination between localities rarely expresses more than the difference in local conditions. On the other hand, most underwriters will admit that there is room for a much closer conformity in rate between certain classes of risks. This, it is believed, will tend to disappear as the work of the National Board's Actuarial Bureau progresses. Promptness in adjustment of losses has long been the tradition of the business.

The relations between fire insurance and the policyholder are thus more complex than the latter has begun to grasp. He is the unit of all calculation and, with millions of other units in every center and corner of the country, he makes underwriting a nation-wide business. Whether he lives in the country or the city, he has a vital interest in the welfare of the business. In the last analysis it is he and his fellows who pay the losses of himself and his fellows, the company being merely the medium of adjustment; therefore, the expense of undue limitation falls inevitably upon him. —

XVIII

FIRE INSURANCE IN ITS RELATION TO BUSINESS

P ~~PRIMITIVE~~ business was carried on by direct barter in which one man exchanged his spare goods for those of his neighbor; the business of our more immediate forefathers was transacted ² with a circulating medium; but important business ³ to-day is conducted almost entirely by means of credit. This is too well recognized to need comment, but it serves to introduce this striking statement from the report of the Insurance Investigating Committee of the New York state legislature:

A paralysis of credit produces disastrous results, in panics and financial depressions. *The credit system, however, is founded on the institution of insurance*; without insurance it would be impossible to get a loan on a cargo of wheat or to mortgage a house or for a retailer to buy on time-payment a bill of goods from a wholesale merchant. Insurance is the foundation of the modern credit system, and by just so much as the welfare of society is founded on the free operation of credit by so much is the institution of insurance of importance to the public, quite aside from its value in actually distributing loss.

Such a wholesale merchant as above referred to has given more extended testimony on his own behalf.

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Perhaps no man could speak with greater authority than Harlow N. Higginbotham, of the firm of Marshall Field & Company, who was honored with the presidency of the Chicago World's Fair. He has said upon this topic:

As a matter of fact, it would be impossible to carry on business without insurance against loss by fire. It would so disturb values of all property that it would materially interfere with the loaning of money; credits which are such a vast aid now would be almost impossible. It would practically reduce trade to a cash basis and limit the volume of business almost to stagnation. . . .

In extending credits to merchants, I am constantly considering questions concerning a customer's fire insurance. His statement of his assets would not be complete if it did not set forth the amount of insurance carried, as well as the kind of building occupied and its environment. It is to me a note of warning if I find a customer either over- or underinsured. If he is overinsured, I am thinking of the moral hazard to me in extending credit to him. If he is underinsured I am thinking of the business hazard in extending credit to him. I always take the liberty of cautioning customers who even temporarily carry over-insurance. . . .

I frequently find a customer or would-be customer without insurance arguing that he has a right to insure himself, sometimes because the building is isolated or specially well constructed, and sometimes for the reason that the buildings are poor and the rate is too high, and he

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cannot afford to pay it. I have always advised against such a plan, and not infrequently have been compelled to decline or restrict the amount of credit because the customer persisted in carrying his own insurance. . . . The only safe way is to insure, and a business that will not enable a man to insure is not worth having and should be promptly discontinued.

The vast business of fire insurance, with its \$60,000,000,000 of protective contracts in the United States, thus forms the real basis of modern commercial relations. Its very existence makes it possible to maintain the confidence so necessary to business life. This is one of its static or *potential* values. Another is found in its direct stimulus to enterprise. Careful business men otherwise would be compelled to maintain large reserves in cash or in convertible securities to guard against fire, but fire insurance enables them to use their resources freely and profitably in their operations; and this fact has been no small item in the wonderful growth of American business—capital becomes bold and energetic when freed from the fear of disaster. Fire insurance does away with the necessity for keeping capital idle. It is the balance-wheel upon the engine that drives American industrial and commercial life.

There is also an active *working* use of fire insurance in something like half a million cases every year with direct business effect in each case. Such are the payment of individual losses. The instances are in-

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numerable where solvency has been maintained only through the payments received from insurance companies, and business enabled to continue as an employer and creator of values. Many of these instances have their human side. The decline of a man from an efficient producer into the "down-and-out" class through discouragement represents a financial loss to society quite as real as that which economists strive to estimate in the case of maiming or untimely death. It is not an exaggeration to say that fire insurance has a large business value in this phase of the conservation of efficiency.

Another important value is found in the minimizing of business interruption. Many lines of efforts suffer severely when forced to stop for any length of time; hands drift away; customers form new relations; seasonal advantages are lost; competition is given a stronger foothold. Thus, without actual physical loss, prolonged suspension sometimes effects the ruin of an important concern. Fire insurance helps to prevent such suspension; it makes possible immediate plans for resumption and reconstruction after a fire, and gives a continuity to business that in itself is worth many millions of dollars each year. And in recognition of this fact, it is the general policy of all leading companies to make prompt adjustments, where there are no suspicious circumstances.

But perhaps the most spectacular relation of fire insurance to business has to do with conflagration

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hazard. It has already been noted that modern life tends toward living in cities, where enormously large values are compressed within a few square miles. From time to time some community will be swept by terrific scourges of flame that wipe huge sums off the national financial ledger. These losses are absolute and irretrievable—there is no salvage in the American ash-heap—but their paralyzing effect is reduced to its lowest terms by the operation of fire insurance which distributes the burden of loss throughout the country. Some cities probably would have ceased for a time to exist as commercial factors without such assistance. It is difficult, for example, to conceive of San Francisco's being compelled to bear the sole burden of its \$350,000,000 loss without an effect upon taxes and values that would have set it back for at least a generation. The resulting disarrangement of our delicately adjusted commercial, industrial, and financial system might easily have resulted in such a nation-wide financial panic as would have swept away other hundreds of millions in values.

Since "the danger of conflagration is present in every city and village in the United States," as the United States Geological Survey Report has said, this is a fact that must never be overlooked. It is, therefore, not astonishing that the New York State Investigating Committee should characterize the conflagration hazard as "an unspeakable menace" while referring to Fire Insurance as "an agency for distributing the loss over the whole community, so that it

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shall not deal a crushing blow to those who have suffered"; or that the Illinois Commission should say that "the public mind does not seem able to grasp the idea that stock insurance is its only protection against conflagrations"; and again, "In our judgment the safety of the American public depends upon the ability of stock insurance to make good, in the event of an impending city conflagration which may occur at any time."

Whether viewed as a basis of credit, a stimulus to enterprise, a preservative of solvency, a moral safeguard, a protector of continuity or a refuge from the "unspeakable menace" of conflagrations; fire insurance is easily entitled to rank as one of the most fundamental factors in modern business life. —

XIX

FIRE INSURANCE IN ITS RELATION TO THE STATE

PRIMARILY, the function of the state in a democratic country is to minister to the welfare of its citizens. This implies, first, protection from danger of every kind and, second, encouragement for all forms of progress. The relations between fire insurance and the state involve both of these functions in peculiarly complex form.

In the earliest days, fire insurance companies received their charters from the states in which they were formed and, beyond the direct provisions of their charters, their conduct was governed by the general operation of business law. But with the rapid extension of underwriting, the attention of legislators was attracted soon to the opportunity, if not the need, for special legislation. Thus, in 1807, Massachusetts passed a law requiring insurance companies to render an account of their affairs to the next General Court. This would not have been required of a dry-goods merchant, for example, or of a ship-chandler; it was, in fact, a distinct recognition of the quasi-public nature of the insurance business.

After such early activity, legislation soon showed a tendency to concern itself more deeply with the op-

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erations of underwriting. In 1820, Massachusetts placed a limitation upon writing-capacity, no company being permitted to assume a single risk exceeding 10 per cent. of its paid-in capital; in 1832, taxation and bond features were added; in 1837, answers were required to a list of twenty-one questions, giving minute details of investments and on other points; in the early '40's, restriction was made as to the amount of railroad stock which might be owned. These are but a few of the steps by which this one state assumed an increasingly supervisory attitude toward fire insurance; other states, meanwhile, were legislating along somewhat similar lines.

In the '50's there came the next logical development; several of the states organized definite Insurance Departments, administered by commissioners, and others gave special supervisory powers to some one or more of their executive officers. To-day nearly all of the states have insurance commissioners or superintendents, some of whom possess autocratic powers. Thus, willy-nilly, the underwriters have seen their operations removed from the status of a private business under their own control to that of semipublic business whose control is dictated largely from outside sources. At every step they have protested, sometimes with a degree of success, but the general trend has been toward the assumption of greater and greater supervisory powers on the part of the states. This fact is neither to be approved nor condemned out of hand; a proper estimate of it

requires a careful scrutiny of the conditions involved.

In the first place, the business of fire insurance, while privately owned, has long passed the stage where it can be denied that the public has a large interest in its conduct. It already has been shown that it ramifies into every community of the country, concerns the individual safety of almost every inhabitant and underlies the whole structure of American business and finance. The interests of several thousand stockholders cannot be compared with those of one hundred million citizens; any clear conflict between them would have to be decided in favor of the latter. Therefore the *principle* of some degree of public supervision, which tends to safeguard the integrity of this institution in the interests of these citizens, is scarcely open to argument.

But when we consider the *practise* by which this principle becomes operative, the situation changes at once. So great is the divergence of views among those who represent the state, and so diametrically opposed are the methods of some of them that argument is inevitable. All claim to have the public welfare at heart; it is evident, therefore, that other tests must be applied than that of individual sincerity.

Let us turn back to our original proposition that the state should protect its citizens from danger and should encourage their progress, and endeavor to see in what manner either of these duties is here involved. Protection from danger, of course, cannot be limited

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to the physical protection furnished by military or police forces. It properly may be concerned with the safeguarding of any form of right. If it should appear that the conduct of the insurance business tended toward imperiled safety, wilful discrimination, extortionate rates, or other form of public abuse, it would be the manifest duty of the state to apply corrective measures. If, on the other hand, these dangers did not exist, such legislation would be superfluous; and would be open to the criterion involved in the wise old ruling: "Unless you have a good reason for doing a certain thing, you have a very good reason for not doing it." Overgovernment is as unsound as undergovernment.

Is there, then, a public menace in underwriting methods?

If the reader has followed the story told in the earlier chapters he will realize that the business of American underwriting has undergone a series of profound internal changes. In its chaotic early days it often weakened its resources and imperiled the protective power of its policies through rate-cutting, and at other times it swung to the opposite extreme of extortionate overcharge. It tolerated a considerable number of irresponsible "wildcat" concerns, and even honest companies were likely to go to the wall under special strain as at the time of the Chicago fire. This, of course, meant danger for the public. To-day these unsound conditions have almost entirely disappeared; state investigating committees have testified as to the

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moderate quality of rates; "wildcatting," in the old sense, is no more. Nobody questions the responsibility of stock insurance-policy contracts; the companies endured the terrific strain of San Francisco's conflagration with few failures. Settlement of losses is notably prompt and just. The public, in short, is amply protected.

This change has been effected in but small degree by state regulation; *it has been chiefly due to a natural process of evolution.* Fire underwriting has been the first among America's great business interests to learn by itself the lesson that its own and the public welfare are identical. The story of the National Board shows that this lesson was learned slowly and painfully through many years. Long periods of conflict were experienced and the failure of hundreds of companies was an unfortunate factor in the acquisition of knowledge. But the lesson *was* learned in time and to a degree of final and profound conviction. Public enjoyment of fair rates, sound protection, prompt adjustments, and freedom from discrimination is not due, therefore, to unwilling virtue under compulsion, but to the underwriters' knowledge that any other course would be unprofitable—bad business. It is doubtless well that all lines of proper conduct should be formulated into laws, and no underwriter could object to this; but results, in this instance, rest upon fundamental social laws that lie deeper than statutes. It is scarcely conceivable that modern underwriting practises would

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be materially different in these respects had there been no legislation upon the subject.

From a consciousness of this fact one turns with a feeling of surprise, of bewilderment, to the intense activity of forty-eight state legislatures fairly seething with legislation upon fire insurance. Why should there be a necessity for *twenty-five hundred bills in a single year* unless the subject be one of immediate and overwhelming emergency? So remarkable a phenomenon challenges explanation. We have already defined the duties of government as two-fold—protection from danger, and encouragement of progress. If the foregoing analysis be sound, the public, in insurance matters, is already amply protected by fundamental business principles as well as by existing statutes; there would then remain as an explanation for such feverish activity but the laudable purpose of encouraging progress. On this point there are several interesting considerations to be noted.

For example, no student of fire insurance can fail to recognize its essential mutuality, whatever the outward form. Money received from the public is used in paying the losses of the public; the companies are the machinery by means of which such distribution is made equitable and efficient. It follows, therefore, that the public must pay the expense if legislation increase expense; must pay for loss of efficiency, if legislation impair efficiency, and must profit by bettered conditions, if legislation better conditions. Save in a technical sense, the public itself

is the body of each company. With this point well in mind, the next to be noted is that *this public is a national one*. It is not divided by state lines. The losses of Connecticut and Texas are paid in part by Iowa and Georgia, and vice versa. As the business is conducted on national lines, because of its national averages, there is no essential difference in fire-insurance interests between Portland, Maine, and Portland, Oregon, between New Orleans and Duluth. American underwriting is an affair of the American people in an undivided sense; the fire insurance legislation of any one state can only serve the people of that state by serving all the people of all the states.

If this be true, it cannot be gainsaid that efficiency can be promoted only by a harmoniously constructive policy arranged between the states upon this universal and tremendously important subject. One need not be an efficiency engineer to realize this, and it gives a shock to observe that the forty-eight states are in a turmoil of conflicting ideas. In one state, for example, there is a law upon the statute-books which virtually makes it a crime for two insurance agents to meet upon the street and talk about their business; companies are absolutely forbidden to combine in the matter of rates, forms, practises, commissions, or anything else. In an adjoining state, with several hundred miles of contiguous territory, the same companies are heavily penalized if they do *not* combine in the matter of rates. In other words, *combination* is a punishable offense in one state while

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in its neighbor, separated only by a geographical boundary-line and where insurance interests are identical, *lack of combination* is the punishable offense. Some states are devoted to "Valued Policy" legislation, others declare it to be "heresy." There is no essential difference in the basis of insurance in these states; such principles must be sound doctrine or heresy in all alike. Wisconsin, which introduced the "Valued Policy" measure and followed it for many years, now repudiates it as "absolutely vicious." There has been no change in conditions in this respect; consequently if vicious now it must have been vicious twenty years ago. Some states advocate state rate-making and their sister states reject it. Theories and practises in the matter of taxation are widely divergent—and so on through a multiplicity of disagreements.

All of this may be reduced to a sylllogism: *regulation by the states has resulted in discord; discord produces inefficiency. Regulation by the states, therefore, has resulted in inefficiency.* From this another syllogism proceeds: *inefficiency increases the cost of underwriting; the cost of underwriting is borne by the public; inefficiency, therefore, increases the cost to the public.* These two conclusions compel the acceptance of another; *regulation by the states, in this respect at least, has increased the cost to the public.* Probably no one who has given the matter careful study will question the soundness of this conclusion.

Searching, as one needs must do, for sufficient

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emergency to account for the astounding activity in fire insurance legislation, it is apparent that such necessity has not yet been discovered. The net result of the inquiry up to this point has been to show:

1. That the state's duty to protect the public from danger is not involved in this instance, since no such danger exists.

2. That the state has not only failed to encourage progress but, in one important respect, has promoted discord and inefficiency, resulting in increased cost to the public.

It will be noted that this is not in contravention of the *principle* of state supervision; it refers solely to the methods of *practise*. Unsatisfactory results imply unsatisfactory methods, and lawmakers, who are so addicted to turning the search-light upon the work of others, cannot complain if they themselves are subjected to a similar examination when they have conspicuously failed in a matter of grave public concern. Making all due allowance for exceptions, here and there, there are four outstanding facts which in general characterize the avalanche of fire insurance legislation constantly being proposed throughout the country.

1. It *displays ignorance*. We have already had a glimpse of the extreme and highly technical complexity of fire underwriting. Practises governing large interests, and resulting from years of experience and the study of highly trained experts may be overthrown in a moment by the passage of some meas-

ure framed by a layman with no practical knowledge of the subject. In a single state such a measure may have a vital effect upon \$500,000,000 in insurance, carried by a quarter of a million citizens at an annual cost of \$5,000,000; not to speak of the welfare of several hundred companies and the livelihood of five thousand resident agents. Were it possible for fire-insurance bills to be framed only by those who had given long, intelligent, and fair-minded study to the subject, underwriting would be freed from a danger hardly second to the "unspeakable menace" of conflagrations. -

2. It is unfriendly. This point is closely associated with the other, but possesses some special features of its own. Many of the bills introduced are conceived in a spirit of indiscriminate hostility to large institutions as such. From time immemorial, politicians of a certain type have sought to pose as defenders of the people from the aggressions of capital. Their formula is elastic and may be widely applied. David attacking Goliath, St. George attacking the dragon—these are figures that readily appeal to the popular imagination, and the politician has learned that popularity and applause may be most quickly attained by attacking largeness, in whatever form it may be found. "Big-game" hunting is therefore not altogether a matter of recreation; it brings its political rewards. Fire insurance companies seem to be the most accessible of the larger fauna.

Other unfriendly motives are to be found in re-

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venge, as where some legislator or constituent believes himself to have a grievance against some company and retaliates upon all companies; in "strike bills"—now infrequent, because they have been uniformly unsuccessful—where a threatening measure is introduced simply in order to be bought off; in bills imposing excessive taxation as a measure of local revenue; in bills to compel undue privileges to policyholders, such as found in the "Valued Policy" laws and others; in bills to require special deposits for alleged reasons of increased protection; in bills to discourage the operation of companies in order to make insurance a state function, and in more regulative, restrictive, and constrictive measures than even can be hinted at in a brief narrative.

3. It is heterogeneous. The fact that different states assume control over the fire insurance business without uniformity of plan or purpose, makes it impossible for the companies to standardize their methods as should be done in the interests of the public as a whole.

4. It is incessant. Conditions never can be considered as established or settled while there is a constant imminence of new bills that, at any time, may create sweeping changes.

In the light of these considerations it is not astonishing that the net result of the relations between fire insurance and the state has been conspicuous failure on the part of the latter. Instead of protecting the people, they have been endangered; instead of en-

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couraging progress, it has acted as a drag. This is a sweeping statement, and it admits of certain important exceptions; but, in the main, it is incontestable.

So much for the reverse side of a subject that naturally has an obverse one as well. One of the latter's features relates to the National Convention of Insurance Commissioners.

Most of the states, as already described, have insurance commissioners or superintendents, who are administrative officers for the execution of insurance laws. For some years these commissioners have made it a custom to gather in annual conventions for the discussion of insurance problems, and of late there has been at these meetings an increase in seriousness of tone together with a greater tendency to seek real solutions of insurance problems. Thus it has come about that a valuable opportunity for exchange of ideas between those representing different sections of the country has been created, and also that those having the greater experience and knowledge of their subject inevitably exercise the greater influence in joint discussions.

This body is an excellent example of a new factor that seems to be at work in our system of government, that of the harmonizing influence of non-legislative conventions. An innovation proposed by any commissioner is naturally viewed in the light of the experience of others, and if it should appear that several states have already found the idea unworkable, it

will probably seem less desirable to its advocate. It is frequently noticed that some new commissioner, with the zeal of inexperience, announces a sweeping program of changes soon after his induction into office, but becomes more conservative after he has had an opportunity to compare his ideas with those of his more experienced peers in the convention. This body also constitutes the best medium for spreading the knowledge of real improvements. Thus, although its individual members may change from year to year, such a body tends to accumulate tradition and to become a definite influence. While, unfortunately, the insurance commissionership is sometimes regarded merely as a stepping-stone to higher office, the convention does contain many unquestioned experts who are earnestly striving to work out a constructive policy. Such discussions, therefore, cannot fail in time to act as correctives upon each of the four above-mentioned menacing elements of insurance legislation. They must replace ignorance with knowledge, unreasoning hostility with fairness, diversity with uniformity, and change with continuity. The perfect consummation of this is, indeed, still far in the future—the present moment is, perhaps, that of the crest of the legislative turmoil, but there are not a few indications that leading thinkers among the commissioners are coming to recognize and advocate certain truths that the companies have learned from hard experience. Thus, there is in process of formation the basis of a genuinely constructive policy

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which, in time, may work through the legislative bodies and formulate itself in a series of broad, fair, and *uniform* laws throughout the United States. When this millennial point is approached, the National Board and the State will be found as harmonious, cooperating factors in solving an important problem in American civilization.

One of the ablest members of the National Convention of Insurance Commissioners recently struck the key-note of the new conception. "Corporations," said he, "must be encouraged and allowed to prosper reasonably, but kept under proper public supervision."

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meaning what?
IN spite of such retrogression as the present great European War, one must believe that human affairs, on the whole, are progressing toward a larger measure of knowledge, justice, security and comfort. *?* In the United States this trend seems particularly marked. Side by side with growth in population and wealth there have been unmistakable signs of organizing and civilizing influences permeating the body of the nation and giving it structure as well as bulk. The most interesting single fact about the fifty years' story under consideration is the conviction that it has shown the National Board of Fire Underwriters operating unconsciously as one of these influences.

We have traced the progress of an altogether remarkable development, probably the most encouraging example of business evolution in American history. American civilization was founded upon the supremacy of individual rights and this principle was carried to a logical extreme in the fierce competition of early insurance history. Any right when asserted to that extent becomes a wrong, and the war between the companies in time produced a condition where the existence of the business and the protec-

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tion of the policy-holders were equally imperiled. It was as a matter primarily of self-preservation and incidentally of public welfare that, on July 18, 1866, the National Board was called into being.

Its early years were spent in "finding itself." They were very human years. The diverse elements were learning, painfully, to forget their diversity and to think in common terms. This was not an easy matter. Success and failure came in rapid alternation, and it required the jolt of disaster to reduce the discordant elements to harmony, but finally this was accomplished. For several years following the Chicago and Boston fire the National Board constituted a virtual business monopoly as efficient and autocratic as any of the trusts and combinations of later day. It preceded by twenty years the Trust Period, when American business began to draw together in great combinations; but it bore the same general characteristics; it was arbitrary in its actions, and it used its power for the increase of profits, by reducing commissions and raising rates. The rates became excessive, as was afterward admitted. While the term had not yet become current, the National Board of Fire Underwriters was in fact the first great American trust.

Then came a significant event—significant, because it seemed to indicate that such combinations cannot become a permanent danger to free institutions, because they carry within them the seed of correction. Through unconscious abuse of power, the National

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Board fell from the seat of power and became a virtual outcast. It was abandoned by all but a few of its friends and retained but a nominal influence. Such a fall was logically inevitable; given the same conditions it would occur again.

At last there arose from the ruins of the old board a regenerated organization animated by a new spirit. Legislative claims were laid aside. Autocracy was abandoned. More and more the underwriters came to realize that they had other interests in common than those of rates and commissions; more and more it became evident that these were interests in which the public also had a share. The promotion of these interests required an organization, and the National Board set out upon the new path. Almost unconsciously it found itself playing the rôle of a privately supported public-service institution, devoting a large part of its efforts to work that was to be of benefit to the public. This did not mean that the underwriters had become disinterested philanthropists; nothing was farther from their thoughts. Their business instincts were as keen as in the old autocratic days, but they themselves were farther-sighted.

They had learned to read self-interest in the larger terms of public service.

Here again, fire insurance was a generation in advance of most forms of business, but recently signs have begun to appear that a similar process of evolution is at work in other lines. Realizing mutual interests is a long step toward true civilization. This

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is one of the respects in which the National Board has been a civilizing force, but there are others hardly less striking.

Civilization moves slowly when it moves blindly; men and nations make swifter progress when their ideals are clearly before them. Fixing ideal standards 2, is of the essence of the National Board's later work. It has promulgated standards in building-codes, in municipal fire and water departments, in electrical installations, in countless devices, materials, and processes affecting fire hazard, in the gathering of statistics, in methods of adjustment, and in policy and other forms of contract. These standards have been issued, not as commands but as suggestions; influence has been substituted for authority. Wherever adopted, and they have been adopted widely, they have bettered methods and improved conditions.

The elimination of prejudgment and guesswork 3, is a characteristic of advanced civilization. Through its Actuarial Bureau, its Underwriters' Laboratories, its Committee on Fire Prevention, and otherwise the National Board is spending money and effort to obtain exact knowledge and to draw true conclusions. These conclusions affect the welfare of millions of people and they have been widely recognized by national, state, and municipal authorities.

4, "Conservation" is a new slogan in the United States, but the National Board has long applied the spirit of conservation in dealing with the most inexcusable form of national extravagance—*fire-waste*.

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In so doing, it has exerted a beneficent influence upon all forms of conservation.

The manner in which fire insurance supports credit ^{5,} and stabilizes business conditions has been described. This is an important element in civilization, and the National Board has had a large part in bringing it about.

Finally, to that pressing problem of modern civilization—the relations of the corporation to the state—the National Board has sought, and is still seeking, to secure an equitable and lasting solution, ^{6,} based not upon expediency but upon a recognition of mutual interests and common rights. The fact that such a solution, if attained, must involve *voluntarily unified legislation* among many separate states will furnish an important precedent for joint state action upon interstate matters. There are few ways in which American civilization could be more beneficently advanced than by such means for turning the heterogeneous into the homogeneous.

The cynic is fond of regarding himself as the clear-eyed, the disillusioned. There is, therefore, a certain pleasure in discovering a basis for optimism, unclouded by illusion and existing where one might least expect to find it. Out of the strife of a highly competitive business, conducted by men of very human impulses, there has arisen an impersonal entity about which the New York State Investigating Committee, in very fairness, felt compelled to say: "The

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work of the National Board is in the highest degree public-spirited and its activities are to be highly commended."—

1782

APPENDIX I *

THE DEVELOPMENT OF THE AGENCY
SYSTEM

- 1798—The Insurance Company of North America, Philadelphia, through its Board of Directors voted, on February 27, "that it is not expedient to have an agent at Charleston, authorized to take risks against fire." (The first discovered reference to agency discussion.) 1798
- 1804—The Phœnix Fire Office of London was represented in New York by Israel Whelan. Mr. Whelan had been a wealthy shipping merchant but was brought to straitened circumstances by French depredations on American Commerce. Although a member of the Society of Friends, he had been a fiscal agent of the government during the Revolution, and Commissary General of the Colonial Army. Mr. Whelan died October 21, 1806. He was succeeded in the management of the Phœnix Fire Office of London by Israel Whelan, 2nd, with offices in Philadelphia. (The first agency office.) 1804
- 1806—The Phœnix Fire Office of London represented in New York by Theophilac and Andrew Bach, with "entire power to accept risks against fire in the United States, with that discretion that their own local experience may dictate." (The first certificate of authority.) 1806

* Appendices prepared by Daniel N. Handy, Librarian of the Insurance Library of Boston.

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1806—The Eagle Fire Company in New York announced that “the company will receive applications from any part of the United States, postage paid, with accurate and authenticated descriptions of the property to be insured and give immediate answers with the amount of premiums that will be charged, which in all cases must be paid at the office of the company before their risk commences.” (The first mail order company.) 1806

1807—The Insurance Company of North America (Philadelphia) listened to a memorial from Mr. Alexander Henry addressed to the board of directors on “extending insurances against fire to Lexington, Kentucky.” A committee following Mr. Henry’s memorial, was appointed to consider the whole subject of the propriety of extending insurances to cities and towns outside the State of Pennsylvania. On December 7, 1807, the board of directors reported favorably on the proposition and authorized the President “to appoint suitable and trusted persons at such places as he shall think advisable to act as surveyors and agents of the company.”

1807—Israel Whelan, 2nd, in Philadelphia, agent of the Phoenix Fire Insurance Company of London advertised as follows:

“The subscriber agent for the Phoenix Company of London is fully authorized to effect insurance, on houses, buildings, stores, ships in harbor, goods, wares and merchandise in any part of the United States, from loss or damage by fire, all terms so moderated as will it is presumed make it the interest of all to resort to a measure so well calculated to give additional security to business transactions and to afford protection from the injuries which fire so often occasioned. In this office no insured person is liable to

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any call to make good the losses of others but in case of fire the sufferer will be fully indemnified with that liberality and promptness which have always distinguished this Company, requiring no other delay even where presumption of fraud appears than is necessary to distinguish the honest sufferer from the fraudulent incendiary . . . since the commencement of the office in 1782 near seven million dollars have been paid to claimants upon their policies.

(Signed)

ISRAEL WHELAN.

1807—The New York legislature passed an act excluding foreign fire insurance companies, but council of revision defeats it. (This may have been a retaliatory measure. At this time America was suffering from action by England and France, induced by the Napoleonic wars.)

1808—The Insurance Company of North America appointed as agents, Charles Ellis, at Burlington, James Ewing at Trenton, New Jersey, and some 30 others including one each in Cincinnati, Ohio; Lexington, Kentucky; Carlisle and Chambersburg, Pennsylvania; and Nashville, Tennessee. Agents were to receive no other fee or emolument than the fee charged the assured for surveying his risk. (The first attempt at a general agency system.)

1809—This year in the legislature of Pennsylvania a bill was introduced in the House declaring void all policies of insurance made by any foreign insurance office in the State of Pennsylvania, and imposing a penalty upon any person insuring in such offices.

1809—A bill to exclude foreign fire insurance companies from New York State again came to the front and again failed of enactment. Popular feeling at this time ran very high against all foreigners.

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- 1809—Maryland and South Carolina passed legislation denying to foreign insurance companies the right to transact business or to be represented by agents within their borders.
- 1810—The Eagle Fire Company of New York appointed an agent at Albany. During the same year the legislature of Pennsylvania in March passed the bill, introduced in the previous year, prohibiting all insurance by foreign corporations, copartnerships or persons not citizens of the United States. This law was aimed at the Phœnix of England whose Philadelphia agency had by its over-zealous competition incurred the hostility of the few local offices. The president of the Insurance Company of North America, writing to James Ewing at Trenton, the year before, had declared that the Phœnix Insurance Company of London took risks both in and out of Philadelphia, both without much investigation and at a lower premium than they would require, but that a decided preference, notwithstanding, was given to their office at higher premiums; he modestly added that the reasons for this preference must be judged by people for themselves, since it did not belong to him to assign them.
- 1810—The American Fire Insurance Company of Philadelphia was founded this year with Mr. Whelan as one of its promoters. It took over the business of the Phœnix now rendered illegal, by the law referred to. The company immediately established agents in various parts of the State of Pennsylvania and advertised to accept risks by correspondence.
- 1810—The Hartford Fire Insurance Company appointed Jonathan G. W. Trumbull of Norwich, Connecticut,

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as agent, authorized to underwrite policies in that town.

- 1814—New York State this year passed a law excluding foreign fire insurance companies from the state. The preamble of the law plainly indicates that it was directed chiefly against the Phoenix Fire Insurance Company whose agents were in New York City and other towns in the state.

Note: Feeling against foreigners intensified through years of bitter controversy in which American rights and American commerce had suffered greatly on the high seas, directed itself against insurance corporations as against other corporations. A note appended to the New York Act says, "During a state of war foreigners, especially alien enemies cannot be coerced by any of our courts of justice to a performance of their contracts."

- 1814—Hartford Fire Insurance Company authorizes Ephraim Kingsbury at Hartford, Connecticut, "to receive proposals for insurance, to determine the premiums, and to issue policies for the company" and allows him for his services "the cost of the policy."

- 1816—The Hartford Fire Insurance Company appointed as its first agent outside of the State of Connecticut, Ebenezer F. Norton, of Canandaigua, New York. No commission or remuneration of any kind was paid to him direct, but he was expected to charge a fee for surveying each risk and a policy fee on each policy written, both of which fees he was to retain for his services.

- 1816—The Hartford Fire Insurance Company appointed Messrs. Hooker and Brewer, agents at Middlebury,

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Vermont, and allowed them a commission of fifty cents on each policy of over one thousand dollars.

1823—New York State enacted a law requiring agents of companies of other States to return to the Comptroller, each year, the amount of premiums received in the State, and to pay thereon a tax of 10 per cent. and to furnish a penal bond in the sum of Five Hundred Dollars.

Note: This attempt to secure by taxation the results against all companies which had been sought by the act of 1814 against foreign companies, was continued for twelve years, until the great conflagration in New York City in 1835, which bankrupted twenty-three out of twenty-six local fire insurance companies, forced public opinion to a more enlightened attitude.

1826—The Protection Fire Insurance Company of Hartford, Connecticut, one of the great fire insurance companies of its day, was the first company to establish an agency in the middle west. The extent to which it developed this agency makes it justly entitled to the claim of having been the first company to develop the agency system as it is known to-day.

In 1826, a Boston Merchant, named Ephraim Robbins, then 42 years of age, found himself in Cincinnati, a financially ruined man—his ruin having been occasioned by disasters at sea. He was without insurance indemnity and so felt himself completely broken in fortune. It was at this time that he chanced to see, in an Eastern newspaper sent him by relatives in Hartford, an advertisement of the Protection Insurance Company, then newly organized and bidding for the patronage of the public.

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Presumably having in mind his own misfortunes, and the difference which would have resulted had his ventures been covered by insurance, Mr. Robbins was immediately impressed with the need of insurance and the possibilities of inducing the people of the middle west to apply for it.

He went to Hartford, saw the officials of the Protection Insurance Company and persuaded them to appoint him as their agent with headquarters in Cincinnati, then a small town. Within the next twenty years this agency appointed more than two hundred and fifty agents, covering several states; secured premiums amounting to three millions of dollars, including premiums for inland and marine insurance; paid substantial losses; and, according to the sources from which this information is taken, realized for its company during these years a net profit of about 10 per cent.

Mr. Robbins is thus described by Mr. J. B. Bennett, himself one of the pioneers in agency work in the middle west, in an address delivered before the Fire Underwriters Association of the Northwest, in 1876: "E. R. was a gentleman of the old school, —aristocratic, polished and of as elegant manners as Chesterfield, about the size of Washington, slightly more corpulent, straight as an arrow, systematic and thorough in all his business, able and learned on political, social and religious subjects, as well as a thoroughly good underwriter, his profound religious convictions added daily beauty to his life and molded a character of such sterling worth and qualities in its aim and usefulness that we who are privileged to meet here to-day whether we fully

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realize it or not are almost as much indebted to E. R. as railroads are to George Stephenson or the telegraph is to Morse."

When Mr. Robbins died in 1846, his son continued the agency until 1854, when the Protection Fire Insurance Company failed, largely as a result of heavy losses incurred at the conflagration in St. Louis in 1849, and through its Marine Department.

For nearly twenty years, the Protection Insurance Company did most of the agency underwriting in the west. The Hartford and the Ætna had a few agents at more important points, but, according to Mr. Bennett, they had less than two dozen each, prior to 1840.

In 1845 several southern and western companies endeavored to develop agency plants and some of them, notably the Colonial, the Lexington, the Tennessee Fire and Marine, the Nashville, and the South Carolina companies succeeded in securing a foothold. For a time they were better known through agencies in the west than any eastern company except the Protection of Hartford. Up to 1845, the Franklin of Philadelphia had not over six agencies west of Pittsburgh. Mr. Robbins' office became a school for training fire insurance men and out of it came at least one president of an insurance company and several agency managers. Its legal adviser was Charles Hammond, a prominent lawyer at that time, and General Harrison, afterwards ninth president of the United States, was a frequent visitor at Robbins' office.

Mr. W. B. Robbins, the son who continued this agency, seems to have been a man of entirely dif-

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ferent temperament. He disliked the routine of office work, delegated most of his supervisory duties to others and devoted his time to finance and speculation, all of which resulted unprofitably. Finally during the Civil War he moved to England, and settled near Manchester where he is supposed again to have prospered financially. His death was a tragedy involving both his wife and his children. While sailing in a pleasure yacht in St. George's Channel with his family the boat in some unaccountable manner overturned and was found floating later, bottom up. Nothing further was ever heard of any of its occupants.

1829—The State of Pennsylvania passes a law forbidding the writing of insurance in companies organized outside the state, whether in foreign countries or other states of the Union. Its object was to prevent the writing of insurance in agencies of other state companies, and to compel its writing in home companies.

1831—The Franklin Fire Insurance Company of Philadelphia newly organized, appointed an agent at Lexington, Kentucky, and, by the attempted extension of its business to another state, sought to provoke a discussion of the right or desirability of a state to forbid companies from other states from doing business within its border. It was the expectation that Kentucky officials being denied the comity of the State of Pennsylvania, would raise the question of extending like comity to a company from the State of Pennsylvania.

1853—The *Ætna* established a Branch in Cincinnati with J. B. Bennet in charge of it, and ultimately suc-

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ceeded to much of the agency business which had been developed by the Protection Insurance Company. Under Mr. Bennet's direction, the Ætna established agents in the States of Tennessee, Indiana, Illinois, Ohio, Michigan, Iowa, Wisconsin, Minnesota and Kentucky.

For several years beginning with 1856 Mr. Bennet published for the agents of the Ætna, a monthly insurance review styled the *Insurance Expositor*. This journal contained practical information regarding fire insurance, fire hazards, insurance legislation and matters of insurance touching the Ætna Insurance Company. The general agency established at this time became not only the first of its kind but the most extensive.

As showing how slowly the agency system extended itself during the first half century of American fire insurance, the following material, gathered from early reports of the New York and Massachusetts insurance commissioners, may be interesting.

In 1854, of sixty-five stock fire insurance companies, reporting to the Insurance State Official of New York, thirty-eight employed no agents whatever. Of the remaining twenty-seven, the Home Insurance Co. employed one hundred and forty agents; the Continental employed sixty-three; the Albany employed twenty-four; the Star of Ogdensburg employed seventy-five; and the North-Western (Oswego) employed seventy-four.

Nineteen of the leading fire insurance companies, reporting to the New York State official in '56, employed in the aggregate 1017 agents. The Monarch Fire and Life Assurance Company, of London,

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employed four hundred agents. In 1856, reporting to the Massachusetts Insurance Commissioner, the Home Insurance Company employed one hundred and twenty-seven agents. The Continental employed sixty-seven; the Springfield Fire and Marine employed seventy-four; the Connecticut Fire employed twenty-one.

In 1854, of one hundred and forty agents employed by the Home Insurance Company, only eighty-eight were employed outside of the State of New York. Of sixty-three agents employed by the Continental, thirty were employed outside of New York. Of twenty-four agents employed by the Albany only one was employed outside of the State. Of seventy-five agents employed by the Star of Ogdensburg, only forty-seven were employed outside of the State.

These figures show to how slight an extent the agency system had taken possession of fire insurance at the end of the first half of the nineteenth century. Even the larger companies were still local companies confining their business to the state in which they were incorporated. More than one-half of the companies in New York State did no agency business at all.

In 1856 out of thirty-five Stock fire insurance companies reporting to the Massachusetts Insurance Commissioner only nineteen reported themselves as employing agents. The others did almost a local business. —

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AGENCY COMMISSIONS

— It has been shown in citations already given that, in the beginning, no commissions or emoluments of any kind were paid to any agent. They were allowed instead to retain what was known as a policy fee, charged to the insured for writing the policy, and a survey fee, likewise charged to the insured, for inspecting his risk. Several of the early companies, before attempting to transact business through agents, sought business by mail. As late as 1816, the Hartford Fire Insurance Company appointed agents in Middlebury, Vermont, and allowed them a commission of but fifty cents on each policy, and then only where the policy exceeded One Thousand Dollars. A little later, 5% was offered and apparently continued the rate of commission for many years.

In 1856, the first return of the Insurance Commissioner of Massachusetts required that each company filing its statement should state what commission it paid to its agents. The Howard paid 10%; the Old Colony, 10%; the Atlantic Fire & Marine, 10%; the Continental, 10%; the Webster, 15%; the Springfield Fire & Marine, 6 to 10%; the Weston, of Massachusetts, 10%; the Merchants', of Rhode Island, 10%; the Connecticut, of Hartford, 10%; the Merchants', of Pennsylvania, 10%; the Traders and Mechanics', 10%; the Firemen's, of South Carolina, 10%; the Keystone, of Pennsylvania, 5 and 10%; the Monarch Fire & Life Assurance, of London, with its four hundred agents reported that "the remunera-

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tion to our agents is a very varied and private arrangement that it would be highly injurious to the company to disclose."

That fire insurance was still largely local is shown, not only in the limited development of the agency system, but in the actual distributions of amount at risk as evidenced by reports to the Massachusetts and New York insurance officials in 1856.

New York Insurance companies reported at this time that the amount of insurance at risk carried by them was approximately \$478,131,000. Of this aggregate, only \$61,131,000, approximately, was carried outside of the state of New York.

In 1856, the Home Insurance Company of New York, according to the Massachusetts report, had but five agents in the entire State of Massachusetts; the Ætna had but nine, two of whom were in Boston; the Hartford had but seven.

The agency system was being developed apparently with the greatest caution during the early half of the century. It was between the years 1850 and 1885 that the agency system began to assume its present importance, which enabled fire insurance companies to apply to their business the law of average over broad areas, and which brought with it problems, trying alike to the insurer and the insured. The company no longer was the master of its own business. In simpler days all of a company's risks were within easy reach of the home office, even by the slow conveyances then available, and the secretary, or even a committee of the company's directors, could without great difficulty visit any property insured in a day's time.

With the development of the agency system the risk

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was removed from the personal supervision of the company's officers. It forced the company to rely upon the judgment of men who could not always be wisely selected or closely watched, and made necessary an intermediary in the form of the special agent. A more serious problem arose with the increasing importance of fire insurance to commerce, and to society generally, when the local agent who was a neighbor of the assured began to control fire insurance risks. This control elevated him at once to a position of supreme importance. The company no longer dealt with the assured directly but with the agent and the agent found himself in the very pleasing position of one who has something to give which very many influential corporations are willing to pay for. Increasing competition among companies led to competitive bidding for the favor of the agent until finally the companies seemed, under pressure, to have surrendered to the agent not only their right to select and reject risks, but also their right to make the rates and even their right to say what rate of commission should be paid to the agent for his favor in handing them the risk.

This elevation of the agent, under stress of competitive necessity, to a position of almost supreme authority over so many things which were properly the province of the companies, brought many evils.

The agent not only determined the commission which he was to receive and the conditions under which he was to turn the business over to the companies, but, acting in close association with his neighbor, the assured, he seems actually to have determined the rate of premium which was to be paid.

The system is probably without parallel; so far as the insurance business is concerned, it resulted in a condition

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of such chaos in the '40's that the companies were compelled to get together and agree upon lines of united action. Meetings of certain companies were held in New York in 1849-50; Louisville, Kentucky, in 1853; Cincinnati, Ohio, in 1854; procedure was agreed upon as regards rates, and communicated to all agents of companies joining in the conference. The attempt of the companies to control their own business seems to have culminated later in the organization of the National Board of Fire Underwriters. Here was a supreme attempt of the companies to regain the authority which through years had been gradually surrendered into the hands of others. How strong the agency system had become was shown in the inability of the companies, through this powerful organization, to control either the agents or each other in relations with the agents. Reaction followed and when the companies made the next great effort to control their own business it was in full recognition of the fact that the agency system, with all its powerful elements of control, must be recognized; hence, when were formed the great regional supervisory and rate-making organizations, such as the New England Insurance Exchange, The Underwriters Association of New York State and the Middle Department, etc., these recognized the local agent and worked in full cooperation with him.

In 1896, the National Association of Local Fire Insurance Agents was formed. This association, with a central organization, and with branch organizations in nearly every state, has tended to unify the agents and in many respects to reemphasize the importance of their control over the fire insurance business. It has concerned itself with such matters as local agency qualifications, single agencies and cities, the rights of agents over busi-

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ness which they have built up, grievances against companies for alleged unfair practises, the appointment by companies of side line agents, the direct and overhead writing of business, and the problems connected with brokerage.

It has also considered through committees the preparation of uniform blanks to be used in agency offices, the legalization of the typewriter form of the standard policy, the standardization of commission agreements and in some states, notably in some of the southern and middle-western states, has actively engaged in initiating and supporting fire insurance legislation.

On the part of the insurer the agency system brought problems which have been trying and difficult to solve. Early in its development the legislatures felt called upon to establish the legal status of the agent. Now in most states, either by statute or by a clause incorporated into its standard policy, the agent, if appointed by the company and acting in its behalf, is considered the company's agent in all respects, and any knowledge of conditions possessed by the agent at the time insurance is written, even though it might constitute a waiver of certain rights of the company, is regarded as knowledge of the company itself.

The growing responsibilities assumed by the agent have seemed to make necessary a higher standard of agency; consequently recent statutes have been enacted attempting to fix standards of qualifications, and lodging in some responsible State Official authority to license insurance agents and to reject applicants for licenses whose qualifications seem to render them unfit for their responsibilities.

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THE BROKERAGE SYSTEM

During more than one-third of the 19th century fire insurance business in the city of New York and in other more populous centers was transacted without the payment of commissions or brokerage. There were at first in New York City but few fire insurance companies and they worked together harmoniously. Although no formal association of companies existed it was found sufficient to work through verbal agreements of company officials. In 1819 it had become necessary to secure more formal ratification of common plans and purposes. The Salamander Society so called, was founded, having for its members the companies then doing business in New York City.

Fire insurance companies doing business in New York in 1819, were:

Phoenix Fire
New York Firemen's
Eagle Fire
Globe
American
National
Franklin Fire
Fulton Fire
Mechanics' Fire
Union
Merchants' Fire

The Salamander Society formulated rates and attempted to see that they were maintained.

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In 1826 the Salamander Society being too loosely organized was succeeded by the Association of Fire Insurance Companies of New York. This association rested on two principles; 1st, the maintenance of rates; 2nd, the non-payment of commissions or emolument of any kind whatsoever to get the business. In 1826 the following companies were doing business in New York City:

Dutchess County F. M. & L.
Mutual Fire
Eagle Fire
Globe Fire
Franklin Fire
Fulton Fire
Manhattan Fire
Mechanics' Fire
Farmers' Fire & Loan Co.
Merchants' Fire
North River Fire
Chatham Fire
Life and Fire Ins. Co.
Hudson F. L. & Inland Navigation Co.
Utica F. & Inland Navigation Co.
Western of Buffalo F. & Inland Navigation
Howard Fire & Inland Navigation
Traders' F. & Inland Navigation
Tradesmen's Fire & Inland Navigation
Jefferson Fire & Inland Navigation
N. Y. Contributionship Fire
Phoenix Fire
Equitable Fire & Burglary
Ætna Fire
Sun Fire
United States Fire
Greenwich Fire
Protection Fire
Brooklyn Fire
Orange Fire

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N. Y. Lafayette Fire Firemen's Fire

Among members of the Association of Fire Insurance Companies were the Knickerbocker, the Globe, Eagle, Washington, and Merchants'. The Globe had a capital of one million dollars. The others a capital of five hundred thousand dollars each. This Association exercised a controlling influence on fire insurance practise in New York City until the great fire of 1835 and the companies which constituted it continued to exercise a controlling influence for some years afterwards.

The broker first appeared in New York approximately in the '40's. The period from 1843-45 saw many new companies formed. The old companies which had built up a large and prosperous business without the payment of commissions, endeavored to maintain a local organization which should enforce the *no commission rule*. The newer companies, however, felt themselves under the necessity of obtaining business by the most direct and rapid means possible. The payment of a commission for the business suggested itself as one means and a cutting of the rate as another. Had the older companies recognized the inevitableness of the agent and the broker as an intermediary between the company and the insured it is probable that the Association of Fire Insurance Companies of New York would have continued. They, however, refused to admit the necessity of either broker or agent and sought to continue the Association on an uncompromising *no commission basis*. A concession was made finally to avoid the disruption of the Association. This concession consisted in permitting the payment of 5% commission. The new companies, however, most of them having declined to come into the Association, offered commissions

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greatly in excess of 5% and gradually encroached upon the business of the older companies. Finally four of the larger companies subscribing to the By-Laws of the Association, withdrew and chaos quickly followed.

In 1858 was organized the New York Board of Fire Insurance Companies, the first company organization frankly to recognize the necessity for paying a commission to agents and brokers. The New York Board in its general rules and regulations, Article IX, says:

No commission exceeding 5% upon the premium shall be directly or indirectly paid for the brokering of risks in the Cities of New York, Brooklyn, Jersey City, or Hoboken, except for policy of one thousand dollars or over; on such policies not exceeding 10%. No member of this Board shall directly or indirectly pay any commission or abatement to the assured nor to any clerk or other person who is regularly employed by the assured, nor to any officer or employee of any insurance company . . . The Commission above allowed shall be in full for all services for whatever name or nature in relation to the procurement of risks on the payment of premium therefor.

From 1858 to 1865 the brokerage issue was uppermost in the minds of fire underwriters in the larger cities. In New York with the formation of the New York Board of Fire Insurance Companies and the passing of the old Association of Fire Insurance Companies the question of brokers and brokerage was argued with great bitterness. The newer companies who found the broker most useful professed to find a justification for the broker in fire insurance in the brokerage system which had grown up in other lines of business. In the sale of cotton, sugar, grain and other staples the broker was deemed necessary. Why was he not equally necessary in fire insurance? Officers of the conservative companies retorted by saying that there was no resemblance between the fire insurance busi-

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ness and the lines referred to. "Why," they asked, "does the property owner having a house to insure, need to seek a broker to bring the insurance for him? Will he not find in the next street an office whose character and standing are as well known to him as they are to the broker? Does he have to learn from a broker what rate he must pay? On the contrary does he not know with certainty that all responsible companies have standard rates and that he will be charged no more by one than by another? Does he not even know that for a company to deviate from those rates would make it an object of suspicion?" The insurance broker was declared to be an anomaly, both useless and dangerous. *An anomaly in that he served the insured and was paid by the insurer. Useless in that he was doing for the insurer precisely that work which the officers of companies were paid to do for him. Dangerous to the insured because in his anxiety to place a risk and earn a brokerage, he often concealed or misrepresented material facts affecting the character of the risk which the owner could not do without rendering his policy void. And dangerous to the insurer because when acting through the broker it was impossible to determine the moral character of the risk.* How, it was argued, could a company know the moral character of the applicant unless it could meet him face to face? If then the broker's position was at once anomalous, useless and dangerous, why should he be tolerated? Finally, argued the conservative companies, the broker was a menace to the community because in his effort to get the largest commission he would not scruple to risk his client's future in irresponsible and unstable companies since it was companies of this kind which paid him the highest commission for his business. A writer in the *United States Insurance Gazette*, for Jan., 1859, says,

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that "the assumption that companies can afford to pay commissions to brokers inspires the assumption that they can and ought to pay them to the merchant. This assumption is fallacious, however, because the insurer pays the broker to get business which he otherwise could not get."

Despite the opposition of the conservative companies the brokers continued to multiply and it became apparent to the more progressive of the company officials that the brokerage system must be recognized. The recognition given it in the new fire insurance organization was the entering wedge. In 1862, the brokers had so far multiplied that they formed an Association in New York City known as the New York Board of Insurance Brokers. Prior to this time an attempt had been made to organize the brokers but without long-continued success.

Article II of the By-Laws of the Board of Insurance Brokers provided that no person should be admitted as a member of the Board unless he had a place of business and devoted the most of his time to the occupation of insurance, and was at the time of his admission free from any indebtedness, for premiums collected, to any companies recognized by the Board.

Article III, provided that a list of companies recognized by the Board should be handed to each member for strict observance, and from time to time should be revised and corrected; and that any member patronizing insurance companies not of proper standing and not recognized by the Board should be liable to expulsion, for any risk put in them after due notice was given.

Article V, provided that all members of the Board should, special risks excepted, faithfully adhere to the established rates fixed by the companies recognized by the

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Board of brokers and that any violation should make the party liable to expulsion.

A committee reporting for the local Board of Fire Insurance Companies in December, 1862, says:

Your Committee first met the question of brokers and brokerage; *and although by our unanimous opinion brokers were deemed unnecessary, yet your Committee voted and now proposes a rule that will admit the payment of brokerage to others than the directly insured.* The liberal manner in which this question was met by some members of the Committee who heretofore in theory and practice have opposed brokerage, your Committee trusts will have an influence on other of our fraternity who may have stronger tendencies for the system than even proposed rules will warrant. The rule proposed by the Committee in its report was that a commission not exceeding 10% of the premium might be paid to brokers in the cities of New York, Brooklyn, Jersey City, and Hoboken, and that this should comprise all and every allowance of whatsoever name or nature for all services relating to the procurement of risks.

In December, 1864, a committee reporting to the Board reported on the establishment of the Board of Brokers as follows:

Resolutions which have reference to the establishment of a Board of Brokers were by us carefully considered and we came to the conclusion that such a Board would be composed of some very discordant materials; questions of strife for business, criminations of unfairness in soliciting and obtaining business that others may have had, or may have deemed themselves entitled to, might arise, and if we (insurers) were individually or collectively engaged in their formation, appeals would be made for our interference, which had better be avoided. The committee conclude it is best for us to deal with each broker individually, and to bind each individual to certain restrictions, which, if broken or avoided by him, will put him aside from dealings with us. We pay him for services *supposed* to be rendered to us, and we have a right in prescribing rules and regulations to govern such services.

In 1857 the Chicago Board of Fire Underwriters through a special committee on brokerage declared:

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The practice of paying commissions on risks brought to insurers by persons commonly known as insurance brokers *being generally disapproved by sound underwriters as having a direct tendency to divert business from its proper channels and to introduce an entirely unnecessary and often unreliable description of men between the insurer and the insured. . . . Your Committee take for granted that all the members of this Board are agreed as to the expediency of a prohibitory rule on that subject. . . .* Your Committee in order to effect the total suppression of the system of brokerage in the business of insurance in this city consider it absolutely necessary to prohibit members of this Board from holding out pecuniary inducements to any one to bring business to them.

The committee then recommended the following resolutions:

I. No member of this Board shall pay any commission to any one for risks which may be offered for insurance.

II. No member of this Board shall employ any solicitor or person to hunt up business for his office upon a percentage of any kind.

These citations show in a general way the manner in which the brokerage system developed and the opposition which for a time marked its development.

Summarizing, it may be said that in the early years of fire insurance the business was largely in the hands of a few strong companies. In New York State where the brokerage issue first arose the organization of companies was for many years rendered more difficult by the necessity of securing a special charter from the legislature in each case. This oftentimes required that the organizers of a company should themselves, or through their attorney, devote the time of an entire legislature to lobbying in Albany in order to get the Legislature to grant the necessary charter. The character of the petitioners, their financial responsibility, the manner in which they proposed to do business, all were likely to receive rather careful scrutiny

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from the legislative committee, to whom their application was referred.

Necessarily the organization of new companies and of companies insufficiently financed was not encouraged for nearly half a century; therefore the few companies early in the field controlled the business in New York City, and for a third of a century controlled it by direct writing. It was not until after the great fire of 1835, and the undoing of many of the old companies, that new companies began seriously to compete for business in New York City. The influx of newer companies, especially of companies organized on a mutual basis was greatly increased after the general insurance incorporation law of 1849, which made it no longer necessary for a petitioner, wishing to incorporate a fire insurance company, to secure a special charter from the legislature. The result was a rapid increase of companies, many of them insufficiently financed, and promoted by men who knew nothing of the fire insurance business. It is stated that, following the financial panic of 1835, many ruined business men resorted to fire insurance; and that, after the law of 1849, it was exceedingly common for men who had failed in other lines of business to organize and to be placed at the head of fire insurance companies, incorporated under the law of New York State.

These companies swarmed into New York City, which was then enjoying a period of rapid growth, and entered immediately into severest competition with the old companies for the business. For the most part they refused to enter the local association of companies, finding that its restrictions placed them at a serious competitive disadvantage. Remaining outside, they sought to secure business by cutting rates.

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About this time—the idea undoubtedly suggesting itself because of the eagerness with which the new companies were seeking business—a few individuals began to bring the insurance of their friends to certain offices in return for either a rebate of the premium or a consideration. The arrangement proved to be mutually advantageous. One by one in spite of the protests of the older companies the newer companies increased their inducements to anybody who would bring his own insurance or that of his friends to their offices.

At first the prestige of the older companies, and the influence which they wielded through their board of underwriters, secured them against disastrous encroachments on their business, but gradually the competition affected even the most conservative of them and the brokerage question found its way into the local underwriters' association as the issue which, in a few years, was to disrupt the association itself.

The brokers themselves had been undergoing changes in personnel which made for the improvement of the system. Whereas, in the beginning, only a few generally irresponsible men engaged in brokerage, now many men of ability and integrity derived their entire livelihood from it. The broker's influence was becoming irresistible. While the greatest difference of opinion existed as to his value to the insured, his utility as a business getter was no longer to be questioned. He now was able even to bargain with companies and, since the competition was growing, to dictate the terms on which his favors should be distributed. An official of one of the older companies complained bitterly that the brokers habitually demand of the companies that they take his undesirable risks as the absolute condition of receiving his desirable risks. "It

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is no longer possible," said this complainant, "for those companies which have by years of careful underwriting built up a prosperous and conservative business to exercise that discretion which they formerly exercised in the selection of risks. It is the broker who forcibly determines the company's selection." The ultimate result of such a system could not but be disastrous to conservative underwriting.

In other cities the entrance of the broker into the business as an intermediary between the insurer and the insured, was noted and commented upon with alarm. Not only fire insurance companies of the most conservative type but state officials as well deplored the broker's increasing power.

None of these things, however, served to check the steady development of the brokerage system. Gradually with the increase in numbers and influence of the broker, he too organized associations; to-day it is safe to say that the brokerage system with all its perplexities is here to stay.

In June, 1869, a Committee of the Senate of the State of Massachusetts appointed to investigate and report on the desirability of legislation to prevent the organization of fire insurance companies to make and maintain rates, devotes several paragraphs to a discussion of the brokerage system. The report says:

Massachusetts companies usually confine their business to the City in which they are located and its vicinity and if they employ agents at all it is only to a limited extent, *but on account of the ruinous practise of foreign companies in out-bidding each other for business by the payment of 15 to 20% commissions, to agents, the local companies as a defensive measure are obliged to take risks through brokers.* These have become alarmingly numerous within the last few years and have greatly increased the cost of

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insurance all of which is ultimately paid by the insured. . . . The agent is necessary, but why load down the business already overburdened with taxes and charges, with the additional expense of brokers who receive in most cases 10% of the entire premium? *If any one wishes to employ a broker why should he not be paid by his principal as in other business?* It cannot be denied that the payment of exorbitant commissions has multiplied brokers to an extent that has brought discredit, suspicion and prejudice upon the insurance interests of the country. *Insurance brokerage has run from the enormous charge of 10% of the premium to the payment by many companies of 15%. While others more reckless pay 20% or one-fifth of the entire premium.* These commissions amount to millions per annum, all of which might be saved if the customer would meet the agent or the officer of the company face to face.

It seems to your Committee, that the national and local boards of fire underwriters aim to and will if not interfered with, eliminate this great evil of excessive commissions and also eventually that of brokerage except in the cases of very large amounts where the assured will employ and pay his own broker.

(By Massachusetts Senate, No. 385, June 8, 1869.)

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STATE SUPERVISION

Legislation concerning fire insurance appears very early in the Legislative history of this country. Originally special charters were granted to fire insurance companies. These charters defined the powers of the corporation and, in some of the early Massachusetts companies, introduced an element of state supervision by requiring that the financial affairs of the corporation be from time to time reported on, and by limiting the proportion of the value of buildings which should be covered by insurance; also by limiting, in the case of mutual companies, the extent and amount of assessments. In Massachusetts, in 1807 (Acts and Resolves, Ch. 56), insurance companies were called upon to render an account of their affairs to the next General Court; the *account*, however, consisting merely in a statement of the amount of capital stock actually paid in, the character and amount of funds in which the same was invested, and the amount of outstanding risks.

In 1820, an Act was passed authorizing all insurance companies incorporated in Massachusetts to insure against fire, a right which heretofore had been delegated by special charter.

They were authorized "in addition to the powers granted by their respective charters, to make insurance against fire on such terms and conditions as may be agreed upon by the parties on any dwelling houses, or other buildings and on merchandise or other property within the

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United States: *provided always*, that no sum shall be insured on any one risk against fire exceeding 10 per centum of the capital stock actually paid in of said insurance company." Here we find a limitation on the writing capacity of fire insurance companies which has remained substantially the same for nearly a century.

In 1827, there was passed an act providing that the agent of a foreign company should, before transacting business for it within the State, file with the treasurer of the commonwealth a copy of its charter and of its letter of attorney granted to him, under penalty for neglecting to do so of Five Hundred Dollars, of which one-half was payable to the informer. The act also required that the agent, under penalty, should file with the state treasurer a sworn statement of the financial condition of the company, and should publish the same in some newspaper in the county in which his agency was established. Companies were required to have a paid-up cash capital of \$200,000 and to swear that they would insure in no single risk an amount greater than 10% of that capital; should an agent write a policy of insurance in a company violating this provision he could be made to forfeit five hundred dollars penalty.

In 1832, Massachusetts passed an act, concerning companies incorporated in the commonwealth, imposing additional obligations upon them and making them liable to taxation under any general law providing for taxation in the State. In the same year there was passed in Massachusetts an act requiring agents of companies from outside of the state to give "bonds of five thousand dollars, to make semi-annual returns of the amount of business written by them, and to pay on premium receipts a tax of 1 1/2 %."

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Then followed during the next few years acts regulating mutual companies, acts authorizing companies to invest parts of their capital stock in the stock of any corporation established in Massachusetts whose corporate property should consist entirely of real estate, or in the funded debt of any Massachusetts city or town.

In 1837, the State of Massachusetts passed a law requiring each insurance company having a specific capital to make annual returns to the secretary of state, instead of to the treasurer as had been enacted previously, and establishing by statute a form of return containing twenty-one questions. These questions were intended to show the location, name and capital stock of the company; the manner in which funds were invested, including investments in Massachusetts stocks, United States stocks, loans on bottomry and respondentia, invested in real estate secured by mortgage on same, loans on collateral or personal security, cash on hand, due on book, and reserve funds. In the case of bank stocks a blank space was provided for inserting the names and amounts owned in each. Then followed a group of questions intended to show the amount due from the companies' offices, including debts owed, losses as ascertained and unpaid, amount of losses exclusive of salvage, amount at risk—fire, amount at risk—marine, average annual dividend, highest rate of interest paid or discount received on any one loan, and the amount of bank stock, returned as being owned by the companies, which was pledged as security for money borrowed.

The secretary of the commonwealth was required to submit in print at the next session of the Legislature, "a true abstract from the return with each column of the abstract truly added up." The increasing develop-

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ment of railroad properties with their demand for huge sums of money and, probably, the growing attractiveness of such properties for investment, appear in special enactments in Massachusetts, between 1838 and 1848. A law was then passed permitting insurance companies to invest one-third of their capital in the stocks of railroad companies incorporated within the state, although not more than one-fifth of their capital might be invested in the stock of any one railroad.

Companies were now required through their directors to make quarterly sworn statements, signed by their president and secretary, setting forth the financial condition of the company, and if any reduction appeared in the capital stock of a company its risks were to be correspondingly reduced. In 1842, Massachusetts required mutual fire and fire and marine companies to make returns of their financial conditions; the returns were to be made to the Secretary of State and a form for making this return was prescribed.

In the early '40's, the unpleasant experience of the state and of the community with irresponsible promoters who traded on the charter of dormant companies, led to the passage of a law requiring incorporated companies to file notice within ten days of incorporation, specifying their acceptance, refusal or of discontinuance of their respective charters. The notice was to be filed with the Secretary of State, and failure of notice of acceptance within one year was to work a forfeiture of the charter.

In 1847, Massachusetts passed an act making every person, who should so far represent in the state any insurance companies, incorporated in any other state or country, as to receive or transmit proposals for insurance or to receive for delivery any policy founded thereon, or other-

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wise to procure insurance by such companies for persons residing in the state, the agent of said company, and making him liable to the restrictions and penalties applicable to such an agent.

In 1849, Massachusetts permitted mutual companies to insure property included within the terms of their charter, situated outside of Massachusetts but within the New England States and the State of New York. All such property must be classified into two classes, to be designated "Less Hazardous" and "More Hazardous." The policy in each case was to show the class to which the property belonged, and the premiums and the notes on the two classes were to be kept separate. No policy was to be issued in either class until the sum of \$100,000 should be insured thereon.

In 1850, Massachusetts by law permitted certain mill corporations in the City of Lowell mutually to insure each other against fire (Acts 1850, Ch. 65).

In 1851, Massachusetts passed an act providing for the appointment of an attorney to accept services for foreign insurance companies, with heavy penalties attached for negligence, including fine of \$301,000 for disability thereafter to collect premiums or assessments. Agents were required to give bonds in five thousand dollars, to make annual returns of the business, and to pay a tax of 1% on premiums, and, in case of mutual companies, on assessments as well.

In 1852, Massachusetts constituted the secretary, treasurer and auditor of the commonwealth a board of insurance commissioners to examine annually in the month of November the statements and returns made by foreign companies and their agents and to prepare and submit to the legislature an abstract of said statements returned.

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The following year, the legislature authorized the Governor to appoint two commissioners to revise and compile into one act all the general statutes of the commonwealth upon the subject of insurance.

In 1854, Massachusetts passed a twenty-page act which codified all the insurance laws of the commonwealth remaining in force, including several revised forms of return for the use of stock and mutual companies as prepared by the commissioner in 1853.

This codification, the work of the two commissioners appointed the previous year, was the first of this kind in the State of Massachusetts.

The first official report of the business of insurance companies published by the State of Massachusetts was compiled by John P. Bigelow, secretary of the commonwealth in accordance with instructions contained in Ch. 192 of the Act of 1837. It was transmitted to the Legislature in 1839 under the title "Abstract of the Returns of Insurance Companies, incorporated with specific capital; exhibiting the condition of those institutions on the first day of December, 1837."

This report consisted of eight pages. It covered Massachusetts companies only, then 48 in number, 29 of these being in Boston; 19 were in other parts of the State. They had an aggregate capital of \$9,415,000 with risks outstanding amounting to \$139,808,644.

The incompleteness of this report is indicated by Mr. Bigelow's introductory paragraph in which he says: "As these corporations are not required by law to file any notice with this Department of the acceptance or discontinuance of their charters, I had no official or certain knowledge of what offices were or were not in actual existence. Blanks were . . . forwarded to the addresses

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of such as were commonly supposed to be in operation."

From 1837 until 1856, the secretary of the commonwealth of Massachusetts submitted returns of insurance companies doing business in the state under forms substantially the same as they used in 1837.

In 1855 was established in the State of Massachusetts a Board of Insurance Commissioners the beginning of departmental insurance supervision which has continued under somewhat varying forms down to the present time.

APPROXIMATE DATES OF ESTABLISHMENT OF INSURANCE SUPERVISION IN THE SEVERAL STATES OF THE UNITED STATES

The increasing importance of fire insurance, and the multiplication of laws having to do with fire insurance and fire insurance companies, have in each State led ultimately to the establishment of a bureau or separate department, administered by a designated official, to have charge over and supervision of insurance.

Massachusetts and New York State early required statements from the companies. Organized supervision in the several States may be said to have been developed as follows:

1852²¹—*Vermont*. Insurance department organized November 23, 1852. Administered by secretary of state and state treasurer as insurance commissioner. Elected by the people for two years.

1852²⁸—*New Hampshire*. Department organized 1852; administered from 1852–59 by a board of three commissioners. Administered from 1870 to date by a commissioner appointed by the Governor with the approval of the executive council for three years.

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- 1852—*Indiana*. Insurance supervision lodged with the auditor of state, 1852–1865. Insurance department organized December 21, 1865. Administered from 1865 to date by auditor of state, elected by the people for two years.
- 1855—*Massachusetts*. In 1837 Acts, Ch. 192, companies were required to make annual returns to the secretary of the commonwealth. First report was made January, 1838. Insurance department was organized April 3, 1855; administered from 1855 to 1858 by board of three commissioners; from 1858 to 1866 by board of two commissioners; from 1866 to date by one commissioner appointed by the Governor for three years.
- 1856—*Rhode Island*. Insurance department established under board of three commissioners in 1856–63. Insurance department organized as a separate department May, 1862. Administered by state auditor and insurance commissioner. Elected annually by legislature from 1862 to date.
- 1857—*Mississippi*. Auditor of public accounts entrusted with supervision of insurance and administration of insurance laws. Insurance department organized January, 1902. Administered by state auditor in 1902–03; from 1904 to date by insurance commissioner elected by the people for four years.
- 1860—*New York State*. By laws of 1853 and 1854 the comptroller of the state was required to receive and prepare reports on the annual statements of the several fire insurance companies of the State of New York, and of other states of the United States authorized to do business in New York. In his first report, James M. Cook, comptroller, says, under

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date of February 17, 1855: "In preparing the following tables the comptroller respectfully refers the legislature to his annual report of the present year as containing all the suggestions and recommendations which he deems necessary to present for their consideration, believing that the present condition of the companies of this state . . . establishes conclusively evidence of immediate need of legislation for the protection of . . . its citizens."

Insurance returns made to the comptroller in years 1855 to 1860. Insurance department organized January 1, 1860. Administered from 1860 to May, 1862, by superintendent; from May, 1862, to 1872, by deputy and acting superintendent; from November, 1872, to February, 1876, by superintendent; from February, 1876, to February, 1877, by deputy and acting superintendent; from February 1877, to January, 1909 (date), by superintendent.

1860—⁴*Alabama*. Supervision of insurance companies placed in 1860 under state auditor. Insurance department organized February 18, 1897. Administered by secretary of state who is ex-officio insurance commissioner. From 1897 to 1900 office administered by deputy insurance commissioner.

1864—*Nevada*. Insurance supervision lodged with comptroller of the state. Insurance department organized February 3, 1881; administered by state comptroller, who is elected by the people for four years.

1865—*West Virginia*. Insurance supervision lodged with auditor of state. Insurance department organized 1867. Reorganized 1907. Administered

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from 1865 to 1907 by state auditor; from 1907 to date by auditor as ex-officio insurance commissioner. Term, four years.

1865—*Connecticut*. Organized July, 1865. From 1865 to date administered by insurance commissioner, appointed by Governor.

1866—*Virginia*. Insurance supervision under auditor of public accounts. Insurance department organized August 2, 1906, as a bureau within the department of corporations. Administered by insurance commissioners elected for four years by joint vote of the legislature.

1867—*Wisconsin*. Insurance supervision entrusted to secretary of state in 1867-78. Insurance department organized 1878; administered by insurance commissioners elected by people for three years.

1867—*Ohio*. Auditor of state charged with supervision of insurance from 1867 to 1871. Insurance department organized March 12, 1872; administered from 1872 to date by Superintendent of Insurance, appointed by Governor for three years.

1868—*California*. Organized May 5, 1868. Administered by commissioner, appointed by Governor, from 1868 to date.

1868—*Iowa*. Insurance supervision as early as 1846 placed under the auditor of state. No insurance department, but by custom the supervision of insurance is continued under the auditor of state, who is elected for two years by the people.

1868—*Maine*. Insurance department created in 1868. Administered by commissioner, appointed by Governor for three years, from 1870 to date.

1869—*Missouri*. Insurance department organized

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- March 4, 1869. Administered by superintendent, appointed by Governor for four years, from 1869 to date.
- 1869—*Georgia*. Insurance affairs under state comptroller general from 1869 to 1887. Department of insurance organized October, 1887, with comptroller general ex-officio insurance commissioner, from 1887 to date. Elected by people for four years.
- 1869—*Illinois*. Auditor of public accounts charged with supervision of insurance from 1869 to 1893. Insurance department created July 1, 1893; administered by superintendent appointed by Governor, for four years.
- 1870—*Kentucky*. Insurance department organized 1870 as bureau of the state auditor's department; administered by commissioner appointed by state auditor for four years.
- 1871—*Kansas*. Insurance department organized March 21, 1871; administered 1871 to date by Superintendent, appointed by Governor for four years.
- 1871—*Michigan*. Organized April 14, 1871; administered from 1871 to date by commissioner, appointed by Governor for two years.
- 1872—*Florida*. Insurance department organized 1872; administered by state treasurer, elected by the people.
- 1872—*Maryland*. Insurance department organized 1872. Administered by commissioner appointed by the board of public works, consisting of the Governor, and state treasurer and the state comptroller, for four years.
- 1872—*Minnesota*. Insurance department organized

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- 1872; administered by commissioner, appointed by Governor for two years, in years 1872 to date.
- 1873.—²*Arkansas*. Insurance department organized April 25, 1873; administered by auditor of state and insurance commissioner, elected by the people.
- 1873.—*Nebraska*. Insurance department organized June 1, 1873; administered by auditor of public accounts, elected for two years.
- 1873.—*Pennsylvania*. Insurance department organized April 4, 1873; administered by commissioner appointed by Governor for three years.
- 1873.—*Tennessee*. Organized insurance department in 1873; administered by treasurer as ex-officio insurance commissioner, appointed by Governor for two years.
- 1875.—*New Jersey*. Insurance supervision entrusted 1875–1890 to secretary of state as insurance commissioner, ex-officio. Insurance department organized February 10, 1891; administered from 1891 to date by commissioner of banking and insurance, appointed by Governor, for three years.
- 1876.—*Texas*. Insurance department organized September 1, 1876; administered by commissioner, appointed by Governor, from 1876 to date. Re-organized 1907. Insurance department under insurance commissioner from 1907 to date.
- 1876.—*South Carolina*. Insurance supervision under comptroller general with limited authority from 1876 to 1908. Insurance department organized February 24, 1908; administered by commissioner, elected by legislature for a four-year term.
- 1877.—*Wyoming*. Territorial auditor in charge of insurance from 1844 to 1896. Insurance department

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- organized 1897; administered by auditor as ex-officio insurance commissioner.
- 1879—~~1~~¹*Delaware*. Insurance department organized March 24, 1879; administered by commissioner, elected for four years.
- 1882—~~2~~²*New Mexico*. Insurance supervision from 1882 to 1904 under territorial auditor. Insurance department organized April 1, 1905; administered by superintendent, appointed by Governor for two years.
- 1883—~~3~~³*Montana*. Insurance supervision by territorial auditor from 1883 to 1889; by state auditor from 1889 to 1909. Insurance department organized 1909; administered by auditor as insurance commissioner ex-officio, elected by people, for four years.
- 1883—~~4~~⁴*Colorado*. Insurance department organized February 13, 1883; administered from 1883 to 1894 by superintendent; from 1895 to 1907 by state auditor as ex-officio superintendent; from 1907 to date by insurance commissioner appointed by Governor.
- 1884—~~5~~⁵*Utah*. Insurance supervision under territorial secretary from 1884 to 1896. Insurance department organized 1896; re-organized April 7, 1909; administered from 1896 to 1909 by secretary of state as ex-officio insurance commissioner; from 1909 to date by commissioner appointed by Governor.
- 1887—~~6~~⁶*Arizona*. Territorial supervision of insurance vested in territorial treasurer from 1887 to 1901. Insurance department organized September 1, 1901, under secretary of territory.
- 1889—*North Dakota*. Insurance department organized
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- October 1, 1889; administered by insurance commissioner, elected for two years.
- 1889—*Washington*. Insurance department organized November, 1889. Insurance supervision vested in secretary of state as ex-officio insurance commissioner. Insurance department administered by insurance commissioner, established November, 1908. Commissioner elected by people for four years.
- 1889—*South Dakota*. Insurance supervision vested in state auditor from 1889. Insurance department organized 1897; administered by insurance commissioner, appointed by Governor for two years.
- 1890—*Oklahoma*. Insurance department organized May 2, 1890. Administered from 1890 to 1897 by secretary of territory as ex-officio insurance commissioner; by insurance commissioner, appointed by Governor, from 1907 to date.
- 1891—*Idaho*. Insurance supervision lodged with State Treasurer from 1891–1901. Insurance department organized 1901; administered by insurance commissioner, appointed by Governor for two years.
- 1898—*Louisiana*. Insurance department organized 1898; administered by secretary of state as ex-officio superintendent of insurance.
- 1900—*Alaska*. Insurance department organized June 6, 1900; administered by surveyor-general as ex-officio secretary of the territory.
- 1902—*District of Columbia*. Insurance department organized January 1, 1902; administered by superintendent of insurance.

APPENDIX V

VALUED POLICY LEGISLATION

The valued policy in fire insurance may be defined as a contract in which, in case of total loss of the property insured, the sum mentioned in the face of the policy is the sum to be paid to the insured, irrespective of the value of the property to the insured at the time of its loss.

The principal objection to a valued policy is that it violates the essential principle of fire insurance, which is *indemnity*. The loser should by his foresight in effecting insurance be restored, in case of loss, to precisely the position in which he was immediately before the loss occurred. His loss should not become a source of profit. Immediately, it having become a source of profit to him to lose his property by fire, the contract ceases to be one of insurance and becomes one of wager, with all its inducements to fraud and crime.

Curiously enough, historically considered, the first valued policy law passed in the United States was intended to prevent over-insurance, the very thing which opponents of this kind of legislation believe to be the inevitable result of valued policy laws, unless the closest oversight is maintained by the insurer.

The first valued policy law was passed by the State of Wisconsin in 1874. It was styled "An act to prevent over-insurance." It probably owed its origin partly to the belief that fire insurance companies, acting through their agents, habitually accepted insurance in excess of the value of the property, depending upon the adjustment

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to scale down the loss payment to the point of safety. The consequence of this practise, so the assured believed, was to over-collect premiums and to under-pay losses. Wisconsin was at this time largely a farming community. Mr. Cornelius Walford points out that it was largely peopled by persons who themselves (or whose ancestors) came from central and northern Europe, where systems of State and Municipal Insurance had existed for generations. Mr. Walford suggests that the European practise of carefully valuing buildings, and of fixing the value through Municipal or State Surveyors, may have been in the background of the minds of those who insisted upon buildings being similarly valued in Wisconsin. But he notes this distinction, that while the valuation of buildings by state and municipal insurance organizations in Europe was common, it was preceded by thorough appraisal, was followed by frequent and systematic further appraisals, and the insurance premium was assessed on a fixed portion of the value thus determined.

Whatever may have been the psychological occasion therefore, the fact remains that Wisconsin, an agricultural community in the early '70's, was bitterly hostile to fire insurance companies and was seeking a means to compel the companies to pay the full value of property insured.

Mr. A. F. Dean says, that a few irresponsible companies were the means of most of the troubles of this period; that these companies, with policies which promised the assured everything on conditions which the assured could not fulfil, and relieved themselves of liability by concealed and artfully phrased conditions, sent peddlers broadcast throughout the State, selling everything from clothes wringers to lightning-rods, with their pol-

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icies as a side line. That these agents being paid on a commission basis eagerly filled in the policies for the largest amounts possible, encouraging the farmers to believe that the companies delighted to pay any sum that they wished to carry. Then when losses came the companies quickly revealed the saving clauses in their policies and through shrewd adjusters scaled down their loss payments to suit themselves. The whole business of fire insurance, says Mr. Dean, was brought into disrepute by these few companies with their pedler agents. As a result a law was passed which provided that in the case of the total destruction of the building by fire, there being no proof of crime, the amount stated in the face of the policy should be paid to the assured.

The law was brought into the Supreme Court of the State for testing and its validity sustained. Judge Cole, in the case of Riley versus Franklin Insurance Company, says of this law that its purpose was "to prevent over-insurance and to guard as far as possible against carelessness and every inducement to destroy the property in order to procure the insurance upon it. When property is insured above its value a strong temptation is presented . . . either to intentionally burn it or not to guard and protect it as one ought." Certainly a very curious illustration of how men may differ as to the true import of the laws which they enact.

Insurance company officials, many of the State Executives and the heads of many State Insurance Departments, have agreed in asserting that, far from discouraging the things aimed at, valued policy laws are themselves a prolific source of precisely these evils.

It is interesting to note that the Wisconsin law enacted in 1874 was repealed in 1915 and that the law which may

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be said to replace it on the Wisconsin Statutes forbids insuring for, or paying losses in excess of, the cash value of property.

The State of Wisconsin having passed the valued policy law others followed rapidly.

While Insurance Commissioners have nearly always opposed valued policy laws, State Legislatures have regarded them with considerable favor. *Rough Notes*, an insurance journal published in Indianapolis, says that between the years 1891 and 1900, inclusive, one hundred and sixty-eight valued policy laws were introduced into the legislatures of the several states; only eleven, however, were passed.

In 1915 valued policy laws are in force in the following twenty-two states:

Arkansas	(1889)	Colorado	(1901)	Delaware	(1889)
Florida	(1897)	Georgia	(1895)	Iowa	(1897)
Kansas	(1893)	Kentucky	(1893)	Louisiana	(1900)
Minnesota	(1905)	Mississippi	(1902)	Missouri	(1889)
N. Hampshire	(1885)	N. Dakota	(1907)	Ohio	(1879)
Oregon	(1893)	So. Carolina	(1896)	So. Dakota	(1903)
Tennessee	(1909)	Texas	(1879)	Washington	(1897)
W. Virginia	(1899)				

Besides out and out valued policy laws in twenty-two States, Idaho, Massachusetts, and the outlying possession of Hawaii have laws which provide that, in case the assured has paid premiums on an amount in excess of the value of the property insured, as shown by the loss adjustment, he shall under certain conditions receive back from the company the difference between the premium that he would have paid for the lesser amount and the premium that he actually paid for the greater amount.

These valued policy requirements apply usually to

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buildings only. While the tendency to enact valued policy laws seems to be waning, the tendency of certain legislators to introduce valued policy bills can hardly be said to have lessened. In 1915, valued policy bills were introduced in the legislatures of Indiana, Massachusetts, Montana, Nebraska, New Mexico, Oklahoma and Tennessee, although none of them became laws.

In 1885, after eleven years of valued policy experience, principally with rural states of the middle west and south, the Convention of State Insurance Commissioners, met in Chicago, and passed this resolution:

Resolved, That insurance is indemnity; and over-insurance which enables the owner of property to recover more than its value, is an inducement to crime. It is, therefore, the sense of this Convention that laws which compel the payment of the full amount written in the contract of fire insurance, though the actual loss be shown to be less, are repugnant to just insurance principles and enlightened public policy.

In 1887, the Superintendent of Insurance of the State of Ohio urged in his annual report the repeal of the valued policy act passed by that State in 1880. "I attribute," he says, "the great increase in the ratio of loss in the State of Ohio, during the last six years, to incendiarism, fostered by the Howland law" (V. P. Law). In 1878 the Wisconsin Insurance Commissioner, urged the repeal of the Wisconsin valued policy law, saying that "Incendiarism is rapidly increasing and alarmingly prevalent with over-insurance as its chief cause." Then, having in mind the fact that it was to prevent the same over-insurance that the Wisconsin law was passed, he says: "What is the remedy? Is it found in the law referred to? From a careful consideration it seems to me not. . . ."

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In 1879, the Wisconsin Commissioner says, that from the best obtainable information, "one-third of the losses in this State during the past year were through incendiary fires." And while not all were attributable to the Wisconsin law, he believed that all had been largely encouraged by it. The incendiary losses for the year he believed exceeded \$330,000, or a burden equal to nearly one-half of the state tax.

Finally, in 1880, the Wisconsin commissioner says: "While this law doubtless originated through a desire to repress over-insurance and with it incendiarism a careful study of the statistics in Wisconsin quite convinced him that although it may have lessened to some extent over-insurance, it had largely increased incendiarism"; affording not only an ever present opportunity to the dishonest but a constant temptation even to the honest man under stress of circumstances.

The New Hampshire commissioner, in 1881, combating the proposal to enact a valued policy law in New Hampshire, says: "The valued policy remedy only invites and facilitates the commission of crime, while it rewards the criminal . . . the most adroit rogues themselves could not devise a more efficient scheme to facilitate the burning of property and the enriching of participants in the crime." In similar vein, and on various occasions covering a long period of years, we find the supervising insurance officials of New York State, of Massachusetts, of Pennsylvania, of Michigan, of Minnesota, of Kansas; and the several supervising officials in National Convention Assembled, protesting against such legislation as unsound in principle, vexatious in practise, and subversive of the fundamental principles of fire insurance itself. So too we find, with wealth and ingenuity of argument, Gov-

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ernors of the States of Pennsylvania, Illinois, Colorado, Utah, West Virginia, Iowa, California, and Wisconsin voicing the same protestations.

Indeed it would be difficult to select any piece of legislation where the voice of all in a position to form an intelligent opinion whether representative of insurers or insured, had been so unanimously, and so continuously raised in protest. And why it has persisted through so many years, has appeared and re-appeared in so many forms and so many localities, is one of the mysteries which the student of popular government will probably seek to solve for a long time to come.

The few apologists for standard policy laws claim for them these results:

That they induce caution on the part of underwriters, causing them ^{carefully} to adjust insurance to value; that they tend to a stricter supervision on the part of underwriters and consequently to a reduced fire hazard, including moral hazard; that they tend to lessen over-insurance due to the habits of caution on the part of the insurer, referred to above; and, finally, that they work a larger measure of justice to the assured, by making it less easy to collect from him premiums based on an amount largely in excess of the adjustable value of his property.

On the other hand, ~~opponents of valued policy legis-~~lation claim that, instead of discouraging over-insurance, in practise it really encourages over-insurance, it being impossible in many cases, especially on low-valued property, to make the kind of exact appraisal necessary to determine its value, even at the time the insurance is written.

Secondly, that, because it does not discourage, but rather encourages over-insurance, it is a direct incentive

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to the crime of arson and indirectly tempts even honest persons in times of financial stress to burn or neglect to care for their property. Thirdly, that it tends automatically to reduce the amount of insurance to value that the insurer will carry and hence to deprive honest men of the full coverage to which they are entitled. Finally, that, since the loss cost sooner or later makes itself felt and gets into the rate, it ultimately leads to increase of fire insurance rates, casting a burden upon all honest people to carry the excessive losses for a few dishonest people.

Many attempts have been made to show by comparative statistics the effects of valued policy legislation on the fire waste. I have been unable to discover any such uniformity in results as shown by comparative statistics, as would warrant sweeping conclusions. Common sense would seem to indicate a higher loss ratio where valued policy laws prevail, but the actual statistics seem to show sometimes a higher loss ratio and sometimes no notable change. It is probable that many other factors enter into the problem and, before a fair comparison can be made, these factors must be recognized. The fact that valued policy laws generally apply only to buildings and not to contents produces another factor difficult of handling.

In conclusion, it is interesting to note that in a report made by an Australian Government fire insurance investigating commission the principle of valued policy legislation after being thoroughly discussed is decided to be wrong and perverse of the ends of fire insurance as well as of the good of the community.

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APPENDIX VI

ANTI-COMPACT LAWS

— It is apparent that fire insurance company officials, from a very early period, have appreciated the necessity of determining and maintaining rates at a point which would cover the cost of the business plus a reasonable margin for profit on money invested.

It is apparent, too, that they have realized that a rate which measured this cost as accurately as possible, allowing a moderate profit, was not only the most defensible rate but the most profitable rate for the companies. It seems quite evident that insurance company officials early appreciated the dangers which would arise among the companies themselves as soon as rates became either excessive or inadequate. It was seen that excessive rates invited the organization of new companies, with extraordinary temptations to cut the rate or to over-pay for the sake of getting the business, while inadequate rates inevitably led to depleted reserves, diminished capital and eventual bankruptcy.

In 1806, we find Bache Bros., representing the Phoenix Fire Office of London in New York, and the officials of the Eagle Fire Insurance Company, of New York, conferring for "promoting harmonious intercourse between the two companies and agreeing to a uniformity of rates"; and in the same year we find the Eagle Fire Insurance Company of New York considering the report of a special committee appointed to consider and report on "the premiums that should be established on extra-

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hazardous risks," and directing this special committee in conference with the president to make rates in all special cases.

About the same time, we find the Insurance Company of North America complaining that the Philadelphia representative of the Phoenix Fire Office, of London, is cutting the rate, but at the same time congratulating itself that the public of Philadelphia is so discriminating that it willingly pays the higher rate of the Insurance Company of North America for the greater security thereby conferred.

The "Salamander Society" in New York City, organized in 1819, and its successor the "Association of Fire Insurance Companies," organized in 1829, as well as its successors, all grew out of a recognition on the part of early fire insurance officials of the necessity of making rates that were adequate and, having made them, of maintaining them.

But, while there seems to have been this early appreciation of the necessity of making adequate rates and of maintaining them, and this realization of the fact that the only way to do this was by cooperation among insurance companies, there does not seem to have been at any time an agreement on the part of all fire insurance companies concerned, either to cooperate to make the rates or to maintain them when they had been made. The result of this is shown in the early history of fire insurance itself.

In a report made by a committee of companies held in New York City in May, 1850, it is stated that the business of insurance against fire in the United States, from its commencement in 1810, was profitable; that such was the uniformity of rates of premium and the judicious

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management of companies that the premiums were sufficient to meet the ordinary losses and to enable the companies to lay by considerable sums as surplus; that the practise of reducing the rates of premiums in order to obtain risks that were insured by other companies had not then been adopted; that the surplus accumulated during this period by the companies in New York City exceeded a million dollars.

The report goes on to say that, during the twenty years that followed 1810, many new companies were established with cash capital of from two hundred to three hundred thousand dollars. Fierce competition ensued between the new companies and the old, with the new companies adopting extremest methods to get the business; rate cutting compelled the old companies to resort to the same methods in order to retain the business which they had built up through many years of careful underwriting.

Eventually, rates were brought so low that they were insufficient to pay ordinary losses while nothing was laid by to meet extraordinary losses. The old companies managed to pay their dividends by applying the interest on capital and when necessary as much of the surplus as would make, with the interest, the amount of the dividend.

During this period, the surplus of the old New York companies is said to have been greatly diminished. The report declares that in the period of twenty years, from 1811 to 1830, inclusive, fire insurance business in the United States did not produce an average profit of 3 per cent. per annum on capital employed; while during the twenty years, from 1831 to 1850, inclusive, with a constantly increasing competition and a steadily declining rate, the whole premiums received in the United States and Can-

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ada, although supplemented by millions drawn out of the capital stock, had hardly sufficed to meet the losses. Stock company and mutual company failures were frequent. The report also declared that for the period of sixty years, from 1791 to 1850, there had not only been no profit but an actual very large loss of capital.

As a result of the report made at this time, many of the leading companies agreed to cooperate in fixing rates of premiums and in abiding by them. About the same time there was organized in Philadelphia the Philadelphia Board of Underwriters, whose purpose was to make and maintain rates for that city.

While the companies were gradually being driven by necessity to cooperate in making and maintaining rates, many companies still remained aloof. New companies were constantly organized and the competitive strife went on.

The insuring public meanwhile having become accustomed to competitive rates and the playing of companies, one against the other, completely lost sight of the fact, if it ever clearly saw it, that fire insurance rates must be sufficient to pay losses, the expense of transacting the business, and a fair return on money invested. Little by little, apparently, there had grown up a feeling that attempts on the part of fire insurance companies to cooperate for the making and maintaining of rates, were monopolistic in character. In the report of company officials just referred to above, this paragraph occurs:

Some of those who only look at the surface of things may say that our consultation together to avert impending ruin, is a combination to establish a monopoly. They do not perceive that there cannot be a monopoly, when there is no obstacle in the way of competition—that exorbitant premiums would defeat the object, by raising up such competition.

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Rates of premiums that are sufficient to meet the aggregate amount of losses can only be ascertained by the experience of many years,—not the experience of one company but of all the Companies. There is no other safe guide for the transaction of this business. It is therefore of much importance to have this information from as many sources as are accessible.

And in July, 1852, following the organization of the Philadelphia Board of Underwriters with its prompt advancement of rates in Philadelphia, *Tuckett's Monthly Insurance Journal* says:

An absurd idea has been adopted by some parties that a fixing of a tariff by a Board of Underwriters is a monopoly, whereas it is in reality an Association for statistical purposes, and correct statistics correct many odd notions.

Here in the beginning and middle of the 19th century we clearly see circumstances compelling fire insurance companies to cooperate in rate making, and the insuring public, which has for long been led to look upon premium rates as solely a matter of competitive bargaining, protesting against the methods by which the insurance companies seek to save themselves from disaster.

At this point it is interesting to reflect on what might have happened, if the companies at this time had possessed any standard by which fire hazards could have been measured, or any sufficient data through which such standards might have been constructed. It is possible that the companies, had they known approximately the cost of carrying the various classes of risks which they were called upon to insure, might have completely forestalled all the hostile legislation that was to follow. For had the companies known the cost of carrying the several classifications involved, would it not have been easy to demonstrate the necessity for cooperation to

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secure the statistics upon which such knowledge was based? Moreover, had the companies themselves known what it would probably cost them to carry certain classes of risks, must the tendency not have been for the rate to reach a point where only a fair profit would follow; where rate-cutting would be impossible and where excessive commissions would be out of the question?

And is it not conceivable that with a known basis upon which to estimate costs, the public would have rested content or at least would have sought by other means to exact a justice which it felt was being denied?

However these things may be, it is apparent that the only means available to the companies for averting their own destruction was, to the public at large, the occasion of increasing suspicion and hostility.

In the period from 1850 to 1860, rate demoralizations continued with company efforts to correct them resulting in rating organizations in a few of the large cities, such as New York, Philadelphia and Chicago, and in the '60's, following the organization of the National Board, an attempt was made throughout the country to establish rate-making on a permanent basis of uniformity.

In the early and middle '80's, in line with the same efforts, were organized those large regional organizations, examples of which are found in the "Union," "New England Insurance Exchange," "Underwriters Association of the Middle Department," "South Eastern Underwriters Association," etc.

The hostility on the part of the public, which has already been noted, broke finally into what is now known as anti-compact legislation, legislation which seeks, on

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the ground that insurance company cooperation is monopolistic in character, to prevent cooperative action of every kind.

The first anti-compact law was passed in Ohio in 1885. Two years earlier, a similar law had been introduced into the legislature of Michigan at the instigation, it is claimed, of large furniture manufacturers in Grand Rapids, who opposed rate advances made by local boards of underwriters. The bill failed at that time in Michigan, but in 1887 was enacted, passing both houses of the legislature by a large majority. The insurance companies immediately protested, declaring that the law was unconstitutional.

Meanwhile, David Beveridge established at Detroit an individual inspection and rating bureau and through a prospectus sent to the companies invited them to become members. In the opening paragraph of his prospectus Mr. Beveridge says: "That the law forbidding agreements between fire insurance companies, seems to render necessary a different plan of conducting business."

Mr. Beveridge assumed that the expense, which would be necessary to enable each company to rate and inspect risks independently, would not only be prohibitive but would result in a situation which would mean that no property owner could tell from day to day what his rate of insurance would be. Consequently, he proposed to establish a private bureau, establishing branches throughout the State in charge of competent deputy inspectors, having underwriting knowledge and skill, whose duty would be to examine all classes of risks to see that proper regulations for the prevention of fires were enforced in mills, lumber yards, manufactories, theaters, etc.; to prepare forms of policies for different classes of

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risks; to inspect and rate risks; to furnish the rates so fixed to subscribers and agents; and to perform such other duties, not contrary to law, as the instances of its subscribers might require. In other words, to do as a private citizen what the companies heretofore had done in association. Mr. Beveridge stated that he proposed to make the rates as low as the subscribing companies could safely accept with a moderate charge to profit, and he reserved the right to adopt existing tariffs as the rates of his bureau until they were changed and the changes were duly promulgated. In his prospectus he outlined the method by which the bureau was to work; divided the State into five districts, and called upon the companies to agree to regard the rates as confidential, and, having received them, to abide by them.

The attorney general at the instance of the insurance commissioner, prepared a lengthy opinion under date of February 11, 1888, in which he decided that the independent inspection bureau as outlined by Mr. Beveridge was not permissible under the Anti-Trust Law of 1887, and that agents who sent their policies to the deputies provided for by Mr. Beveridge's plan, as directed by their companies, would be likewise violating the law.

Shortly afterwards, the Supreme Court in Michigan, to whom the matter had been brought for adjudication, decided that the anti-compact law was constitutional. From this time on anti-compact laws in one form or another were rapidly enacted.

In 1889, Nebraska and Texas enacted similar laws. Nebraska's law was declared unconstitutional two years later. Bills were introduced into no less than fifteen States, in 1897, and three of them became laws. In

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1899, bills were introduced in fourteen States, five of them becoming laws. In 1897, a bill was introduced into Connecticut which was then second of the New England States to show an interest in this type of legislation.

From 1883 to 1893, anti-compact laws were introduced into New Hampshire, Ohio, Michigan, Kansas, Missouri, Nebraska, Texas, Georgia, Maine and Mississippi. Maine was the first of the New England States, after New Hampshire, to pass anti-compact legislation. Both, Maine and New Hampshire had been under the jurisdiction of the New England Insurance Exchange. With the passing of this law, exchange jurisdiction in these states ceased. In New Hampshire, the New Hampshire Board of Fire Underwriters was organized and maintained by state companies and proceeded to do the work which the exchange had formerly done. In Maine, an independent rating bureau was established. New Hampshire's law continues on the statute books until the present day, but Maine's was repealed after two years' experience, and the New England Exchange resumed its jurisdiction over that State in 1895.

The years 1899 and 1900 marked the high-water mark of anti-compact legislation; in these two years five states enacted anti-compact laws, while bills were introduced into twelve other states, but failed of passage.

The period from 1903 to 1909, inclusive, was prolific of anti-compact bills, no less than fifty-seven being introduced into various states, but resulted in comparatively few additions to the states having anti-compact laws. In this period only four anti-compact laws were passed. The following list shows roughly, by years, laws passed (L) and Bills introduced (B):

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FIFTY YEARS OF A CIVILIZING FORCE

ANTI-COMPACT LAWS

	(L)	(B)		(L)	(B)
1883	.	1	1900	1	2
1885	2	1	1901	0	5
1887	1	..	1902	0	2
1888-9	1	..	1903	1	11
1890-2	1	..	1904	0	3
1893	1	1	1905	2	10
1894	0	3	1906	0	5
1895	1	5	1907	1	10
1896	0	1	1908	0	8
1897	3	9	1909	0	10
1898	1	..	1910	0	4
1899	4	10	1911	* 2	6

* Insurance Code.

The Maine anti-compact law was repealed in 1895. In 1900, three bills to repeal anti-compact laws were introduced. In 1901, one bill to repeal existing anti-compact laws was introduced, and, in 1902, two bills were introduced to repeal existing laws.

The insurance commissioners were beginning to doubt the efficacy of this type of legislation. All anti-compact laws had proceeded on the assumption that the association of fire insurance companies, for the purpose of making and maintaining rates, was essentially monopolistic in character, and that the evils growing out of such monopolistic control would be done away with if the monopoly itself could be destroyed. Now, however, began to appear a feeling, voiced by certain state commissioners, that cooperation of fire insurance companies to make and maintain rates was absolutely necessary if the solvency of companies were to be secured, discrimination in rates to be avoided, and uniformity in rates to be effected. Consequently, about this time, there appeared bills that

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either admitted or specifically authorized the association of companies to make rates but required that this function be performed under close state supervision. Before this point was reached an intense struggle had gone on between the state legislatures on the one hand, and the insurance companies on the other; each appealing to the state and federal courts.

In Missouri, the secretary of state attempted to enforce the anti-compact law against the fire insurance companies in 1893 but was resisted by the companies. The attorney general finally ruled against the insurance official, restraining him from further activities. In 1895, the law in Missouri was amended, this time making it apply explicitly to combinations of fire insurance underwriters but exempting cities of over 100,000 inhabitants, which included St. Louis and Kansas City, the centers of most active opposition to the law. This law was very drastic and manifestly grew out of hostility to the companies. In 1898, the attorney general of Missouri began suits against the insurance companies in combination in the exempted cities of Kansas City and St. Louis claiming that the exemption was unconstitutional. The Missouri Supreme Court sustained the claim of the companies and denied the claim of the attorney general that the exemption of cities of over one hundred thousand population from the operation of the anti-trust law was unconstitutional.

In 1901, after several years of unceasing agitation, a more sweeping anti-trust law was enacted in Missouri, which did away with the exemption granted to combinations of fire underwriters in cities of over one hundred thousand inhabitants, making necessary the dissolution of the underwriting boards in Kansas City and St. Louis.

FIFTY YEARS OF A CIVILIZING FORCE

Shortly after this, W. J. Fetter established the Kansas City Independent Actuarial or Rating Bureau, where he prepared and published books of advisory rates on fire insurance of cities and towns in Missouri, which were used by representatives of companies forming the "Underwriters Social Club of St. Joseph, Mo." The attorney general brought suit against over seventy companies, members of this club, charging violation of the anti-trust law and asking the Supreme Court of the state for a writ of ouster to compel their dissolving the club and to prohibit them from doing further business in the state until they should do so.

The Court complied with the request and, in its opinion, said:

The Underwriters Social Club is a pool, trust and conspiracy organized and maintained by the defendant companies and is therefore an unlawful combination and subject to the penalties prescribed in the Act of 1897 . . . the judgment of the Court is that the defendants be Ousted of rights, privileges and franchises conferred by the Laws of this State . . . and that they pay the costs of this proceeding.

Judge Valliant dissented from the opinion of his fellow judges on the ground that the chief testimony in support of the charge of conspiracy was given by two former members of the Underwriters Social Club who were unfriendly to the club because of differences of opinion which had led to their withdrawal. Regarding Fetter's Rate Book, Judge Valliant said:

There is nothing unlawful in the character of the book and nothing unlawful in the insurance companies basing their business ventures on the information it contains . . . the use that a fire insurance company standing alone may see fit to make of the book is no more to be condemned than the use that a merchant may make of the daily price current reports.

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The Writ issued by the Court was to take effect July 10, 1899, but the companies having argued unsuccessfully for a re-hearing of the case and their counsel having asked thereupon for a modification of the judgment against the companies, the Court modified the judgment by changing it from an absolute ouster to a fine of one thousand dollars for each company, and their promise to hereafter abide by the anti-trust law as construed by the court.

Early in 1900, nearly one hundred fire insurance companies paid to the State of Missouri fines of one thousand dollars each and were reinstated in the business of the State.

By this time, conditions in Missouri had become so demoralized that local agents were actively engaged in legislative work and actually drafted and introduced into the Missouri legislature several bills, the more important of which provided that local agents might organize independent of the fire insurance companies to make fire insurance rates in the State of Missouri. These bills were not enacted.

The disturbed conditions in the State of Missouri within the last few years are well known.

In Arkansas, in 1899, an anti-compact law was passed which forbade companies, which were a party to any combinations of companies to fix and maintain rates *wherever organized*, to do business in the State of Arkansas. This introduced the question of the right of a State to legislate outside of its own border. The question was brought to an issue when, following the dissolution of the Arkansas State Board of Underwriters, fire insurance belonging to similar boards in other states continued to do business in Arkansas. The Attorney Gen-

FIFTY YEARS OF A CIVILIZING FORCE

eral brought suits against over sixty fire insurance companies, undertaking to collect fines of five thousand dollars from each and claiming violation of the law on these grounds.

In 1899 the Circuit Court of Pulaski County, Arkansas, sustained the demurrer of the companies and when the attorney general, refusing to accept the lower court's decision, carried his case to the Supreme Court; the Supreme Court, in 1900, unanimously sustained the finding of the lower court that the State of Arkansas could not constitutionally enforce a law extra-territorial in effect.

The attorney general subsequently became Governor of the state, and he then sought to enact a law which should explicitly prohibit companies, belonging to combinations for rating purposes outside of the State of Arkansas, from doing business within the state, but failed to get his bills accepted by the legislature.

In Texas, an anti-trust law, passed about 1899, was decided by the Texas Supreme Court to be applicable to fire insurance companies. The companies protested and, in 1899, Texas, after several years of violent agitation, passed an anti-trust law making it specifically applicable to fire insurance companies. Under the prior law the insurance companies in Texas had used rates promulgated by Jalonick's Rating Bureau at Dallas. Now they ceased doing so. Local boards and all organizations in the state, having the making and enforcement of rates as their object, were disbanded. The law containing the extra-territorial feature was decided to be obnoxious to the constitution of the United States by the Supreme Court of Arkansas, hence was claimed to be without effect by the Attorney General of the State.

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THE FACTORY INSURANCE ASSOCIATION

The Factory Insurance Association was organized in Boston in April, 1890. Its object was to furnish an organization of stock fire insurance companies to compete with the factory mutuals for mill risks and to retain this class of business for the stock fire insurance companies. It grew out of a recognition of the fact that, if the stock fire insurance companies were to compete successfully with the factory mutuals, they must themselves adopt many of the methods by which the factory mutuals had so successfully developed. The factory association was to employ a corps of inspectors to make regular and systematic inspection of all risks submitted and accepted, and to lodge in the hands of a single administrative body full power within limits to solicit, pass on, and accept factory risks.

The originators were eleven stock companies, including the Phoenix, of New York, National, of Hartford, Phenix, of Hartford, German American, Queen, Royal, Liverpool, London and Globe, Niagara, Hanover, Providence-Washington, and the American, of New York. The first officers were George P. Sheldon, of the Phoenix, of New York, President; and George P. Field, New England Manager of the Royal, of Liverpool, Secretary and Treasurer. The Executive Committee consisted of representatives from the National, Phoenix, of Hartford, Liverpool, London and Globe, Queen, and Hanover.

FIFTY YEARS OF A CIVILIZING FORCE

Headquarters originally were in Boston; later headquarters were established in Hartford. The Association is unincorporated.

It now operates (1915) in the eastern, middle, and southern states, including Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Louisiana—in all, eighteen states.

Originally, all companies that were members of the Association were pledged to write maximum lines of \$50,000 at rates of from twenty-five to fifty cents. The association was to direct its efforts towards acquiring New England business, but later was to extend its operations to the other States, if thought desirable.

The association acts both as solicitor of business and inspector of risks. It writes on cotton mills, woolen mills, worsted mills, mixed mills, knitting mills, silk mills, thread, upholstery and chenille mills, boot and shoe mills, paper, rubber weaving and finishing and morocco mills, bleacheries, print cotton warehouses, lace curtain mills, carpet mills, lithographing and printing mills, metal workers, dyeing and finishing, wholesale drugs and chemicals, wire mills, hat factories, shirt factories.

All risks are carefully inspected before policies are issued. Each risk must measure up to fixed standards of fire protection and moral hazard in order to be acceptable, and must fall within one of the foregoing classes. Each risk after acceptance is inspected four times a year, and where alteration, repair or new building is contemplated, inspectors are sent to consult and advise with the assured. Standards of construction and of fire protection have been carefully worked out by the association

APPENDIX VII

and these are furnished without charge to the assured who contemplates alterations or new building.

The association uses forms and policies required by the states in which it operates. Policies may be signed by the local agent placing the risk, or by the resident inspector of the Factory Association if authorized so to do.

Rates, if risks applied for admission are acceptable, are fixed by the Manager aided by reports from inspectors. Since the members of the Association are also members of the regional rating boards in the several states, where it operates, it is customary, when the Association fixes a rate lower than that fixed by the board having jurisdiction, to declare the rate *open*, so that all companies may compete for the risk on equal terms.

The average rate per \$100 of insurance, on the class of risks covered by the Factory Insurance Association, has steadily decreased since its organization, and the loss ratio of the Association as a whole is said to be substantially lower than that of any one of its members in the same territory.

FIFTY YEARS OF A CIVILIZING FORCE

LIST OF OFFICERS OF THE NATIONAL BOARD OF FIRE

Date	President	Vice-President	Secretary
July 18, 1866	James M. McLean	T. C. Allyn	Frank W. Ballard
Feb. 21, 1867	"	L. J. Hendee	Wm. Connor, Jr.
" 18, 1868	"	"	"
April 21, 1869	"	"	"
" 20, 1870	Henry A. Oakley	"	Jas. M. Rankin
" 19, 1871	"	"	"
" 17, 1872	"	"	B. S. Walcott
" 23, 1873	"	"	Sam P. Blagden
" 22, 1874	"	"	"
" 23, 1875	"	Geo. L. Chase	"
" 26, 1876	Geo. L. Chase	Charles Platt	E. Alliger
" 25, 1877	Alfred G. Baker	B. Lockwood	"
" 24, 1878	"	"	M. Bennett, Jr.
" 23, 1879	"	"	"
" 28, 1880	M. Bennett, Jr.	D. A. Heald	John W. Murray
May 19, 1881	D. A. Heald	John W. Murray	D. W. C. Skilton
" 18, 1882	"	"	"
" 17, 1883	"	"	"
" 15, 1884	"	D. W. C. Skilton	John L. Thomson
" 21, 1885	"	"	"
" 20, 1886	"	"	"
" 5, 1887	"	"	"
" 17, 1888	"	"	"
" 16, 1889	"	"	Robert B. Beath
" 8, 1890	"	"	"
" 7, 1891	D. W. C. Skilton	Thos. H. Montgomery	"
" 12, 1892	"	"	"
" 18, 1893	"	"	"
" 10, 1894	Edw. A. Walton	William B. Clark	"
" 9, 1895	"	"	"
" 14, 1896	William B. Clark	Henry W. Eaton	"
" 13, 1897	Henry W. Eaton	E. C. Irvin	"
" 12, 1898	E. C. Irvin	Geo. P. Sheldon	"
" 11, 1899	"	"	"
" 10, 1900	Geo. P. Sheldon	E. L. Ellison	"
" 9, 1901	"	"	"
" 8, 1902	Robert B. Beath	H. H. Hall	Chas. A. Shaw
" 14, 1903	H. H. Hall	John H. Washburn	"
" 12, 1904	John H. Washburn	Geo. W. Burchell	"
" 11, 1905	"	"	"
" 10, 1906	Geo. W. Burchell	J. Montgomery Hare	C. G. Smith
" 9, 1907	"	"	"
" 14, 1908	J. Montgomery Hare	A. W. Damon	"
" 13, 1909	"	"	"
" 26, 1910	A. W. Damon	Geo. W. Babb	"
" 11, 1911	Geo. W. Babb	Wm. N. Kremer	E. W. West
" 23, 1912	"	"	"
" 22, 1913	Wm. N. Kremer	E. G. Richards	E. J. Haynes
" 28, 1914	"	R. M. Bissell	"
" 27, 1915	E. G. Richards	"	"

APPENDIX VIII

UNDERWRITERS FROM DATE OF ORGANIZATION

Treasurer	Chairman Executive Comm.	Secretary Executive Comm.	Executive Officer (See Note)
J. S. Parish	D. A. Heald	F. W. Ballard	
"	"	C. B. Whiting	
"	"	"	
"	E. W. Crowell	"	
"	"	A. J. Smith, pro tem.	
"	Rudolph Garrigue	W. H. Post	Thos. H. Montgomery
"	Stephen Crowell	Henry K. Miller	"
"	"	"	"
"	Geo. T. Hope	"	"
"	"	"	"
"	"	"	"
"	D. A. Heald	"	
"	Geo. T. Hope	"	
"	B. Lockwood	"	
"	"	"	
"	Peter Notman	"	
"	J. N. Dunham	"	
"	E. A. Walton	"	
"	"	"	
"	J. Goodnow	"	
Fred. W. Arnold	"	"	
"	"	"	
"	Geo. P. Sheldon	"	
"	Henry W. Eaton	"	
"	E. F. Beddall	"	
"	Marshall S. Driggs	"	
"	"	"	
"	Geo. P. Sheldon	"	
"	H. E. Bowers	"	
"	"	"	Henry K. Miller
"	"	"	"
"	H. H. Hall	"	"
"	"	"	"
"	John H. Washburn	"	"
Marshall S. Driggs	Wm. N. Kremer	"	"
"	J. Montgomery Hare	"	"
"	A. W. Damon	"	"
"	"	"	"
"	Geo. W. Babb	"	"
"	"	"	"
"	Wm. N. Kremer	W. E. Mallalieu	W. E. Mallalieu
C. J. Holman	E. G. Richards	"	"
"	"	"	"
"	R. M. Bissell	"	"
"	F. C. Buswell	"	"
"	"	"	"

(NOTE). The title of the executive officer was General Agent, 1872-1878 and 1899-1913; in 1913 it was changed to General Manager. 1866-1872 and 1878-1899 the Secretary of the Executive Committee acted as executive officer.

APPENDIX IX

Companies represented at the Original Convention—July 18, 1866.

MASSACHUSETTS

SPRINGFIELD FIRE & MARINE	by J. N. Dunham, Sec.
PEOPLE'S, Worcester	A. N. Currier, Sec.
NORTH AMERICAN, Boston	Albert Bowker, Pres.

RHODE ISLAND

WASHINGTON, Providence	by J. Kingsbury, Pres.
EQUITABLE, "	Thos. G. Turner, Pres.
MERCHANTS, "	Walter Paine, Sec.
NARRAGANSETT, "	A. O. Peck, Pres.
ATLANTIC, "	J. S. Parish, Sec.

NEW YORK STATE

GLENS' FALLS, Glens Falls	by R. M. Little, Pres.
WESTERN, Buffalo	E. B. Smith, Pres.

CONNECTICUT

MERCHANTS, Hartford	by M. Howard, Pres.
HOME, New Haven	D. R. Satterlee, Pres.
NORTH AMERICAN, Hartford	A. F. Hastings, Pres.
NEW ENGLAND, "	W. C. Goodrich, Gen. Agt.
CITY, "	C. P. Webster, Pres.

PENNSYLVANIA

PHILA. UNION MUTUAL, Philadelphia	by John Morse, Sec.
GERARD, "	A. F. Gillette, Agent.

MARYLAND

NATIONAL INS. CO., Baltimore	by John B. Seidenstriker, Pres.
ASSOCIATED FIREMEN'S, "	John Dukehart, Sec.
MERCH'TS & MECH'ICS, "	N. P. Campbell, Pres.
UNION, "	John Coates, Pres.
WASHINGTON, "	Thos. T. Canby, Pres.

VIRGINIA

JEFFERSON, Albemarle Co.	by W. C. Carrington, Pres.
JAMES RIVER, "	W. C. Carrington, Pres.
INS. CO. OF AMERICA "	Chas. Platt.

OHIO

SUN, Cleveland,	by E. C. Rouse, Sec.
GERMANIA, "	E. C. Rouse, Sec.
TEUTONIA, "	E. C. Rouse, Sec.
STATE FIRE, "	J. B. Merriam, Treas.
CLEVELAND, "	E. B. Smith.

APPENDIX IX

ILLINOIS

CHICAGO FIREMEN'S, CHICAGO
THE CHICAGO BOARD OF FIRE UNDERWRITERS, CHICAGO

ILLINOIS MUTUAL, Alton

Thos. Goodman.
Samuel T. Atwater.
Wm. E. Rollo.
John C. Dore.
Lewis Kellenberger.

CITY OF NEW YORK

ÆTNA
ASTOR
ATLANTIC
ADRIATIC
CITIZENS

CLINTON
COLUMBIA,
CONTINENTAL
CORN EXCHANGE
EXCELSIOR
EXCHANGE
FIREMEN'S
FULTON
GEBHARD
GREENWICH
GERMANIA
GLOBE
HARMONY
HOME
HOWARD
WILLIAMSBURG CITY
QUEEN
HUMBOLDT
IRVING
INTERNATIONAL
LENOX
LORILLARD
LIVERPOOL & LONDON
MANHATTAN
MERCANTILE
MERCHANTS
METROPOLITAN
MONTAUK
NEW AMSTERDAM
NIAGARA
NORTH AMERICAN
PHENIX
REPUBLIC
RESOLUTE
SECURITY
STANDARD
WASHINGTON
YONKERS & N. YORK
IMPORTERS & TRADERS
* Survivors of original convention.

by F. A. Conkling, Pres.
R. D. Hart, Pres.
John D. Cocks, Pres.
Wm. A. Seaver, Pres.
Jas. M. McLean, Pres.
E. A. Walton, Sec.
J. B. Ames, Sec.
Alfred Douglass, Pres.
Geo. T. Hope, Pres.
Geo. A. Dresser, Sec.
M. T. Hodges, Pres.
Rich. I. C. Combs, Sec.
J. V. Harriot.
Jas. M. Rankin, Sec.
Jno. R. Smith, Sec.
Saml. C. Harriot, Pres.
R. Garrigue, Pres.
Leonard Kirby, Pres.
R. O. Glover.
D. A. Heald, G. Agt.
Hy. A. Oakley, Sec.
Edmund Driggs, Pres.
W. H. Ross, Sec.
Wm. Mulligan, Pres.
Martin L. Crowell, Sec.
C. A. Hine, Sec.
Geo. A. Jarvis, Pres.
Carlisle Norwood, Pres.
Alfred Pell, Jr.
A. J. Smith, Pres.
* Wm. A. Anderson, Sec.
J. L. Douglass, Sec.
E. A. Stansbury, V.-Pres.
Wm. Ellsworth, Pres.
David S. Manners, Pres.
Peter Notman, Sec.
R. W. Bleecker, Sec.
E. W. Crowell, V.-Pres.
D. F. Curry, Sec.
Wm. M. Randall, Sec.
T. W. Birdsall, Pres.
* Wm. M. St. John, Sec.
Wm. K. Lathrop, Sec.
* John W. Murray, Sec.
F. W. Ballard, Sec.

APPENDIX X

ROLL OF MEMBERS OF THE NATIONAL BOARD OF FIRE UNDERWRITERS (APRIL, 1916)

COMPANY	LOCATION
AACHEN AND MUNICH FIRE	Germany.
ÆTNA	Hartford, Ct.
AGRICULTURAL	Watertown, N. Y.
ALBANY	Albany, N. Y.
ALLEMANNA FIRE	Pittsburgh, Pa.
ALLIANCE	Philadelphia, Pa.
AMERICAN	Newark, N. J.
AMERICAN CENTRAL	St. Louis, Mo.
ARIZONA FIRE	Phoenix, Ariz.
ATLAS ASSURANCE	London.
AUTOMOBILE	Hartford, Ct.
BOSTON	Boston, Mass.
BRITISH AMERICA ASSURANCE	Toronto, Canada.
BUFFALO GERMAN	Buffalo, N. Y.
CALEDONIAN	Scotland.
CAMDEN FIRE INS. ASSOCIATION	Camden, N. J.
CENTURY	Edinburgh
CITIZENS	St. Louis, Mo.
CITY OF NEW YORK	New York.
COLUMBIAN NATIONAL	Detroit, Mich.
COMMERCE	Albany, N. Y.
COMMERCIAL UNION ASSUR.	London.
COMMERCIAL UNION FIRE	New York.
COMMONWEALTH	New York.
CONCORDIA FIRE	Milwaukee, Wis.
CONNECTICUT FIRE	Hartford, Ct.
CONTINENTAL	New York.
COUNTY FIRE OF PHILA.	Philadelphia, Pa.
DETROIT F. & M.	Detroit, Mich.
DETROIT NATIONAL	Detroit, Mich.
DIXIE FIRE	Greensboro, N. C.
DUBUQUE F. & M.	Dubuque, Ia.
•EQUITABLE F. & M.	Providence, R. I.
FARMERS' FIRE	York, Pa.
FIRE ASSOCIATION	Philadelphia, Pa.
FIREMAN'S FUND	San Francisco, Cal.

APPENDIX X

COMPANY	LOCATION
FIREMEN'S	Newark, N. J.
FRANKLIN FIRE	Philadelphia, Pa.
FRANKONA REINSURANCE	Germany.
GENERAL FIRE	Paris.
GEORGIA HOME	Columbus, Ga.
GERMAN ALLIANCE	New York.
GERMAN AMERICAN	New York.
GERMAN AMERICAN OF PA.	Pittsburgh, Pa.
GERMAN AMERICAN FIRE OF D. C.	Washington, D. C.
•GERMANIA FIRE	New York.
•GERARD F. & M.	Philadelphia, Pa.
•GLENS FALLS	Glens Falls, N. Y.
GLOBE AND RUTGERS	New York.
GRANITE STATE	Portsmouth, N. H.
HAMBURG-BREMEN FIRE	Germany.
HANOVER FIRE	New York.
HARTFORD FIRE	Hartford, Ct.
•HOME	New York.
IMPERIAL ASSURANCE	New York.
INSURANCE CO. OF N. AMERICA	Philadelphia, Pa.
INSURANCE COMPANY, STATE OF PA.	Philadelphia, Pa.
KNICKERBOCKER	New York.
LAW, UNION AND ROCK	London.
•LIVERPOOL AND LONDON AND GLOBE	Liverpool.
LIVERPOOL AND LONDON AND GLOBE	New York.
LONDON AND LANCASHIRE FIRE	Liverpool.
LONDON ASSURANCE CORPORATION	London.
MASSACHUSETTS F. & M.	Boston, Mass.
MECHANICS' FIRE	Philadelphia, Pa.
MECHANICS AND TRADERS	New Orleans, La.
MERCANTILE OF AMERICA	New York.
MICHIGAN COMMERCIAL	Lansing, Mich.
MICHIGAN F. & M.	Detroit, Mich.
MILWAUKEE-MECHANICS	Milwaukee, Wis.
MUNICH REINSURANCE	Germany.
NATIONAL FIRE	Hartford, Ct.
NATIONALE FIRE	Paris.
NATIONAL UNION	Washington, D. C.
NATIONAL UNION FIRE	Pittsburgh, Pa.
NEWARK FIRE	Newark, N. J.
NEW BRUNSWICK FIRE	New Brunswick, N. J.
NEW HAMPSHIRE FIRE	Manchester, N. H.
NEW JERSEY FIRE	Newark, N. J.
•NIAGARA FIRE	New York.
NORD-DEUTSCHE	Hamburg.
NORSKELLOYD	Norway.

FIFTY YEARS OF A CIVILIZING FORCE

COMPANY	LOCATION
NORTHERN	New York.
NORTHERN ASSURANCE	London.
NORTH BRITISH AND MERCANTILE	London and Edinburgh.
NORTHWESTERN NATIONAL	Milwaukee.
NORWICH UNION FIRE INS. SOCIETY	England.
OLD COLONY	Boston, Mass.
ORIENT	Hartford, Ct.
PACIFIC FIRE	New York.
PALATINE	London.
PENNSYLVANIA FIRE	Philadelphia, Pa.
PEOPLE'S NATIONAL FIRE	Philadelphia, Pa.
PETERSBURG SAVINGS AND INS. CO.	Petersburg, Va.
PHENIX FIRE	Paris.
PHOENIX	Hartford, Ct.
PHOENIX ASSURANCE	London.
PORTSMOUTH FIRE ASSOCIATION	Portsmouth, N. H.
POTOMAC OF D. C.	Washington, D. C.
PROVIDENCE-WASHINGTON	Providence, R. I.
PRUSSIAN NATIONAL	Germany.
QUEEN	New York.
RELIANCE	Philadelphia, Pa.
RHODE ISLAND	Providence, R. I.
ROSSIA	Petrograd.
ROYAL	Liverpool.
ROYAL EXCHANGE ASSURANCE	London.
ST. PAUL F. & M.	St. Paul, Minn.
SAFEGUARD OF NEW YORK	Hartford, Ct.
SALAMANDRA	Petrograd.
SCOTTISH UNION AND NATIONAL	Edinburgh.
SECURITY	New Haven, Ct.
*SPRINGFIELD F. & M.	Springfield, Mass.
STANDARD	Trenton, N. J.
STANDARD FIRE	Hartford, Ct.
STATE ASSURANCE	Liverpool.
STUYVESANT	New York.
SUN INSURANCE OFFICE	London.
SVEA FIRE AND LIFE	Sweden.
SWISS NATIONAL	Basle.
TEUTONIA FIRE	Pittsburgh, Pa.
TWIN CITY FIRE	Minneapolis, Minn.
UNION ASSUR. SOCIETY	London.
UNION FIRE	Paris.
UNITED FIREMEN'S	Philadelphia, Pa.
UNITED STATES FIRE	New York.
URBAINE FIRE	Paris.
VIRGINIA F. & M.	Richmond, Va.

APPENDIX X

COMPANY	LOCATION
WESTCHESTER FIRE	New York.
WESTERN	Pittsburgh, Pa.
WESTERN ASSURANCE	Toronto, Canada.
*WILLIAMSBURGH CITY FIRE	New York.
YORKSHIRE	York, Eng.

(NOTE). Companies marked with asterisk (*) were represented at the original convention of July 18, 1866.

APPENDIX XI

CONSTITUTION AND BY-LAWS

CONSTITUTION

This Association shall be known as **THE NATIONAL BOARD OF FIRE UNDERWRITERS OF THE UNITED STATES.**

Any Stock Fire Insurance Company of the United States, or any Stock Fire Insurance Company from a Foreign Government doing business in the United States may become a member of the Board, on being duly elected at either a regular or special meeting of the Board, or by the Executive Committee. In case of any Foreign Fire Insurance Company having several Resident or District Managers in the United States, such Managers may attend the meetings of the Board and be entitled to the privileges of the floor and collectively, through one of their number, designated by them, cast a single vote for the company, or, if the company so elect, its vote may be cast by such person as it may commission for that purpose.

The objects and purposes of this Board are declared to be as follows:

PURPOSES.

1st. To promote harmony, correct practices, ~~and the principles of~~ sound underwriting; to devise and give effect to measures for the protection of the common interests, and the promotion of such laws and regulations as will secure stability and solidity to capital employed in the business of Fire Insurance, and protect it against oppressive, unjust, and discriminative legislation.

2d. To repress incendiarism and arson by combining in suitable measures for the apprehension, conviction, and punishment of criminals guilty of that crime.

3d. To gather such statistics and establish such classification of hazards as may be for the interest of members.

4th. To secure the adoption of uniform and correct policy forms and clauses, and to endeavor to agree upon such rules and regulations in reference to the adjustment of losses as may be desirable and in the interest of all concerned.

5th. To influence the introduction of improved and safe methods of building construction, encourage the adoption of fire protective measures, secure efficient organization and equipment of fire departments, with adequate and improved water systems, and establish rules designed to regulate all hazards constituting a menace to the business. Every member shall be in honor bound to cooperate with every other member to accomplish the desired objects and purposes of the Board.

OFFICERS.

The officers of the Board shall consist of a President, Vice-President, Treasurer and Secretary, with the usual powers and duties of such officers,

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to be chosen by ballot at each annual meeting of the Board, and to hold office for one year, or until their successors are chosen; and only one representative from a company shall be eligible to office at the same time.

EXECUTIVE AND STANDING COMMITTEES. [SEE ALSO BY-LAWS.]

There shall be an Executive Committee, to consist of eleven members, who shall be officers or managers of companies, and who shall be elected by ballot for three years each, and the terms of their office shall be so arranged that three shall retire one year, and four on each of the two following years.

The Board shall have power to appoint such other Standing Committees as the requirements of its business may make necessary or desirable.

BY-LAWS.

The Board shall also have power to make such By-Laws for the government of its affairs as may become necessary.

AMENDMENTS.

This Constitution can be altered or changed only at an annual or called meeting of the Board, thirty days' previous notice of the alteration having been given to the members, and then only by a vote of two-thirds of the members present at the meeting.

BY-LAWS

MEETINGS.

The Annual Meeting shall be held on the fourth Thursday in May in each year, in the city of New York, unless some other time and place be designated by the Board at its preceding meeting, or by the Executive Committee at least one month in advance. There may be held a semi-annual meeting at such time and place as the Board and the Executive Committee may direct.

Special meetings may be called by the President, on the request of the Executive Committee, or on the written request of thirteen members. At all meetings, twenty members shall constitute a quorum for the transaction of business.

EXECUTIVE COMMITTEE.

The Executive Committee shall have power to fill vacancies which may occur on the committee, and may also elect as Honorary Members such executive officers of companies as may be entitled to such consideration by the length and value of their services.

No retiring member of the Executive Committee shall be eligible to a re-election until one year has elapsed after the expiration of his term of office as one of the committee.

No company shall be represented on the Executive Committee by more than one officer, except in the case of Honorary or *Ex-officio* Members, when another officer may also be elected one of the committee.

Companies, members of the Board, not represented on the committee, shall be entitled to be represented at its meetings with the privilege of the

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floor and the right to vote; but traveling expenses shall be allowed only to the regularly elected members of the committee.

The Executive Committee is authorized to exercise all necessary powers to promote the purposes of the Board, as herein declared, and to that end shall consider all measures proposed for the common welfare, and endeavor to secure the adoption by its members of all such measures as shall, in their judgment, be valuable and practicable.

The Executive Committee shall also endeavor to procure uniformity in the form of policy to be used, and more careful modes of writing policies. They shall also consider and recommend some mode of obviating the evils of loose and indefinite underwriting, such as the too general permission of other insurance without notice; the granting of extra privileges without charge; excessive insurance; hasty adjustment and payment of losses, and kindred evils; and shall also consider any other matters promotive of sound underwriting and the general good of the members of the Board.

The Executive Committee shall also have power to appoint an officer to be known as the General Manager of the National Board of Fire Underwriters, whose duty it shall be under the advice and direction of the Committee, to use all proper means to promote the purposes of this Board and the best interests of its members; also to act as Secretary for the Executive and other Committees of the Board. They shall also have power to employ such other salaried representatives and clerical help as may from time to time appear necessary and determine the compensation for their services; to incur necessary incidental expenses; also to provide rooms suitable for the business of the Board.

No officer or member of the Executive Committee shall receive any compensation for services except by vote of the Board at its annual meeting.

EX-OFFICIO AND HONORARY MEMBERS OF THE EXECUTIVE COMMITTEE.

The President and Vice-President of the Board shall be *ex-officio* members of the Executive Committee, and of all Standing Committees of the Board.

The Secretary and Treasurer shall also be *ex-officio* members of the Executive Committee.

The chairmen of the several Standing Committees shall be *ex-officio* members of the Executive Committee.

Ex-Presidents of the Board, while remaining officers of Fire Insurance Companies members of the Board, shall be honorary members of the Executive Committee with the right to vote and privilege of the floor.

EXPENSES.

The expenses of the Board shall be borne by the several companies forming the same in proportion to the amount of their net fire premiums in the United States as reported to State Insurance Departments, the expenses of any fiscal year to be apportioned upon the receipts for the preceding calendar year.

The assessments shall be made by the Board or the Executive Committee, and be collected by the Treasurer.

STANDING COMMITTEES.

There shall be appointed by the President, at each annual meeting, the following Standing Committees, to consist of not less than five members each:

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- A Committee on Finance.
- A Committee on Laws.
- A Committee on Incendiarism and Arson.
- A Committee on Statistics and Origin of Fires.
- A Committee on Fire Prevention.
- A Committee on Lighting, Heating, and Engineering Standards.
- A Committee on Construction of Buildings.
- A Committee on Adjustments.
- A Committee on Clauses and Forms.
- A Committee on Membership.

These committees shall attend to the duties that their several titles imply, and shall report annually to the Board, or may report at any time to the Executive Committee.

WITHDRAWALS.

Any company, a member of this Association, may honorably withdraw from the same by giving three months' notice, and paying all its assessments and dues.

ORDER OF BUSINESS.

At each meeting of the Board the following shall be the order of business.

1. Calling of Roll.
2. Reading of Minutes.
3. President's Address.
4. Treasurer's Report.
5. Report of Executive Committee.
6. Reports of Standing Committees.
7. Appointment Nominating Committee.
8. Reports of Special Committees.
9. General or Special Orders.
10. Deferred Business.
11. Miscellaneous or New Business.
12. Election of Officers.
13. Special Resolutions.
14. Adjournment.

AMENDMENTS.

These By-Laws may be amended at any meeting of the Board by a two-thirds vote of its members present, thirty days' previous notice having been given to the members of the Board of the intention to amend.

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